BankFinancial CORP
Form 10-Q
April 29, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period ended March 31, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For transition period from to

Commission File Number 0-51331

BANKFINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

Maryland	**75-3199276**
(State or Other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**

15W060 North Frontage Road, Burr Ridge, Illinois	**60527**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (800) 894-6900

Not Applicable

(Former name or former address, 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 (§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 ¨ No ¨.

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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See 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	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate the number of shares outstanding of each of the Issuer s classes of common stock as of the latest practicable date. 21,448,377 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of April 27, 2009.

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BANKFINANCIAL CORPORATION

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

March 31, 2009 and December 31, 2008

(In thousands, except share and per share data)

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from other financial institutions	$ 20,155	$ 29,213
Interest-bearing deposits in other financial institutions	2,882	116
Cash and cash equivalents	23,037	29,329
Securities available-for-sale, at fair value	119,417	124,919
Loans held-for-sale	1,729	872
Loans receivable, net of allowance for loan losses:		
March 31, 2009, $14,558; and December 31, 2008, $14,746	1,283,996	1,267,968
Stock in Federal Home Loan Bank, at cost	15,598	15,598
Premises and equipment, net	34,773	34,565
Accrued interest receivable	6,420	6,732
Goodwill	22,566	22,566
Core deposit intangible	5,556	5,985
Bank Owned Life Insurance	20,112	20,171
Other assets	24,705	25,996
Total assets	$ 1,557,909	$ 1,554,701
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits	1,153,738	1,069,855
Borrowings	123,995	200,350
Advance payments by borrowers taxes and insurance	6,857	8,104
Accrued interest payable and other liabilities	7,672	9,601
Total liabilities	1,292,262	1,287,910
Commitments and contingent liabilities		
Stockholders equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding		
Common Stock, $0.01 par value, shares authorized: 100,000,000; shares issued at March 31, 2009, 21,486,377 and at December 31, 2008, 21,694,177	215	217
Additional paid-in capital	194,261	195,119
Retained earnings, substantially restricted	86,939	88,279

Unearned Employee Stock Ownership Plan (ESOP) shares	(15,906)	(16,148)
Accumulated other comprehensive income (loss)	138	(676)
Total stockholders equity	265,647	266,791
Total liabilities and stockholders equity	$ 1,557,909	$ 1,554,701

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended March 31, 2009 and 2008

(In thousands, except share and per share data) - (Unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Interest and dividend income:		
Loans, including fees	$ 17,563	$ 19,578
Securities	1,343	1,146
Other		18
Total interest income	18,906	20,742
Interest expense:		
Deposits	5,131	6,308
Borrowings	605	1,161
Total interest expense	5,736	7,469
Net interest income	13,170	13,273
Provision (credit) for loan losses	1,344	(51)
Net interest income after provision (credit) for loan losses	11,826	13,324
Noninterest income:		
Deposit service charges and fees	794	825
Other fee income	428	475
Insurance commissions and annuities income	177	246
Gain on sale of loans, net	256	70
Gain on sale of securities		1,385
Gain on unredeemed VISA stock		1,240
Gain (loss) on disposition of premises and equipment	(4)	9
Loan servicing fees	175	213
Amortization and impairment of servicing assets	(222)	(311)
Operations of real estate owned	(253)	(11)
Bank Owned Life Insurance income (loss)	(59)	217
Other	97	348
Total noninterest income	1,389	4,706
Noninterest expense:		
Compensation and benefits	7,865	8,220
Office occupancy and equipment	1,767	1,947
Advertising and public relations	366	164
Information technology	1,008	904
Supplies, telephone, and postage	424	522
Amortization of intangibles	429	452
Other	930	1,019

Total noninterest expense		12,789		13,228
Income before income taxes		426		4,802
Income tax expense		254		1,610
Net income	$	172	$	3,192
Basic earnings per common share	$	0.01	$	0.16
Diluted earnings per common share	$	0.01	$	0.16
Weighted average common shares outstanding		19,779,561		19,962,347
Diluted weighted average common shares outstanding		19,779,561		19,968,004

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

Three months ended March 31, 2009 and 2008

(In thousands, except share and per share data) - (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance at December 31, 2007	$ 222	$ 198,449	$ 113,802	$ (17,126)	$ (4,210)	$ 291,137	
Comprehensive income:							
Net income			3,192			3,192	$ 3,192
Change in other comprehensive income, net of tax effects					(935)	(935)	(935)
Total comprehensive income							$ 2,257
Purchase and retirement of common stock (254,800 shares)	(2)	(3,897)				(3,899)	
Nonvested stock awards- Stock-based compensation expense		1,247				1,247	
Cash dividends declared on common stock ($0.07 per share)			(1,546)			(1,546)	
ESOP shares earned		145		244		389	
Balance at March 31, 2008	$ 220	$ 195,944	$ 115,448	$ (16,882)	$ (5,145)	$ 289,585	
Balance at December 31, 2008	$ 217	$ 195,119	$ 88,279	$ (16,148)	$ (676)	$ 266,791	
Comprehensive income:							
Net income			172			172	$ 172
Change in other comprehensive income, net of tax effects					814	814	814
Total comprehensive income							$ 986
Purchase and retirement of common stock (207,800 shares)	(2)	(1,798)				(1,800)	
Nonvested stock awards- Stock-based compensation expense		941				941	
Cash dividends declared on common stock ($0.07 per share)			(1,512)			(1,512)	
ESOP shares earned		(1)		242		241	
Balance at March 31, 2009	$ 215	$ 194,261	$ 86,939	$ (15,906)	$ 138	$ 265,647	

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31, 2009 and 2008

(In thousands) - (Unaudited)

	Three months ended March 31,	
	2009	**2008**
Cash flows from operating activities		
Net income	$ 172	$ 3,192
Adjustments to reconcile to net income to net cash from operating activities		
Provision (credit) for loan losses	1,344	(51)
ESOP shares earned	241	389
Stock-based compensation expense	941	989
Depreciation and amortization	1,017	948
Amortization and accretion of premiums and discounts on securities and loans	(37)	(4)
Amortization of core deposit and other intangible assets	424	447
Amortization and impairment of servicing assets	222	311
Net change in net deferred loan origination costs		45
Net loss on sale of real estate owned	27	
Gain on sale of loans, net	(256)	(70)
Gain on sale of securities		(1,385)
Gain on unredeemed VISA stock		(1,240)
Gain (loss) on disposition of premises and equipment, net	4	(9)
Loans originated for sale	(13,534)	(9,652)
Proceeds from sale of loans	12,933	8,107
Net change in:		
Deferred income tax	(160)	864
Accrued interest receivable	312	327
Bank Owned Life Insurance income (loss)	59	(217)
Other assets	844	1,469
Accrued interest payable and other liabilities	(1,929)	(2,027)
Net cash from operating activities	2,624	2,433
Cash flows from investing activities		
Securities available-for-sale		
Proceeds from sales		1,385
Proceeds from maturities	540	198
Proceeds from principal repayments	6,314	1,758
Loans receivable		
Principal payments on loans receivable	221,117	231,263
Purchase of loans	(9,984)	(565)
Originated for investment	(229,070)	(229,038)
Proceeds from sale of real estate owned	108	
Purchases of premises and equipment, net	(910)	(157)
Net cash from investing activities	(11,885)	4,844

(Continued)

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31, 2009 and 2008

(In thousands) - (Unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Cash flows from financing activities		
Net change in deposits	83,883	(16,037)
Net change in borrowings	(76,355)	15,587
Net change in advance payments by borrowers for taxes and insurance	(1,247)	(1,189)
Repurchase and retirement of common stock	(1,800)	(3,899)
Cash dividends paid on common stock	(1,512)	(1,546)
Net cash from financing activities	2,969	(7,084)
Net change in cash and cash equivalents	(6,292)	193
Beginning cash and cash equivalents	29,329	28,948
Ending cash and cash equivalents	$ 23,037	$ 29,141
Supplemental disclosures of cash flow information:		
Interest paid	$ 5,927	$ 6,114
Income taxes paid		300
Loans transferred to real estate owned	364	1,136
Due to broker		47

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 1 Basis of Presentation

BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois (the Company), is the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the Bank). On March 15, 2008, Financial Assurance Services, Inc. (Financial Assurance), a wholly-owned subsidiary of the Bank, completed the sale of its title insurance agency business to a newly formed, third-party title insurance agency. The sale of the title insurance agency business does not affect the Bank s other insurance businesses, such as the property, casualty and life insurance and fixed annuity products that the Bank sells through Financial Assurance. The transaction had no material impact on the Company s total assets, stockholders equity or net income.

As used in this Quarterly Report on Form 10-Q, the words Company, we and our are intended to refer to the Company, the Bank, and the Bank s subsidiaries, with respect to information presented for the three-month period ended March 31, 2009.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three-month period ended March 31, 2009, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2009.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, mortgage loan servicing rights, impairment of securities and the fair value of investment securities and financial instruments are particularly subject to change.

Certain reclassifications have been made in the prior period s financial statements to conform them to the current period s presentation.

These unaudited consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008, and all amendments thereto, as filed with the Securities and Exchange Commission.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 2 Earnings per share

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned ESOP shares and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock computed using the treasury stock method.

	Three months ended March 31,	
	2009	**2008**
Net income	$ 172	$ 3,192
Basic earnings per common share:		
Average common shares outstanding	21,617,158	22,101,410
Less: Unearned ESOP shares	(1,598,497)	(1,704,262)
Unvested restricted stock shares	(239,100)	(434,801)
Weighted average common shares outstanding	19,779,561	19,962,347
Basic earnings per common share	$ 0.01	$ 0.16
Diluted earnings per common share:		
Weighted average common shares outstanding	19,779,561	19,962,347
Net effect of dilutive stock options and unvested restricted stock		5,657
Weighted average diluted common shares outstanding	19,779,561	19,968,004
Diluted earnings per common share	$ 0.01	$ 0.16
Number of anti-dilutive stock options excluded from the diluted earnings per share calculation	2,334,803	2,336,803
Weighted average exercise price of anti-dilutive stock option	$ 16.51	$ 16.51

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 3 Securities

The fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
March 31, 2009			
Municipal securities	$ 1,819	$ 84	$
Mortgage-backed securities	41,238	879	(7)
Collateralized mortgage obligations	75,826	1,217	
SBA-guaranteed loan participation certificates	123		(6)
Equity securities	411		(1,945)
	$ 119,417	$ 2,180	$ (1,958)
December 31, 2008			
Certificate of deposit	$ 500	$	$
Municipal securities	1,811	76	
Mortgage-backed securities	41,976	281	(170)
Collateralized mortgage obligations	80,154	743	(14)
SBA-guaranteed loan participation certificates	125		(6)
Equity securities	353		(2,003)
	$ 124,919	$ 1,100	$ (2,193)

Mortgage-backed securities and collateralized mortgage obligations consisted of Freddie Mac, Fannie Mae and Ginnie Mae issues at March 31, 2009 and December 31, 2008. Equity securities consisted of Freddie Mac preferred stock at March 31, 2009 and December 31, 2008. All of our investment securities reflected in the preceding table were classified as available-for-sale at March 31, 2009.

Interest income on securities is recognized under the interest method, and includes amortization of purchase premium and discount. Gains and losses on sales of securities are based on the amortized cost of the securities sold.

The Company evaluates marketable investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under the current accounting guidance, which provides that if a marketable security is in an unrealized loss position, whether due to general market conditions or industry or issuer-specific factors, the holder of the securities must assess whether the impairment is other-than-temporary.

The shares of Freddie Mac preferred stock that the Company holds in its investment portfolio experienced significant declines in fair value (as measured by quoted market prices for these securities) during the year ended December 31, 2008 and the three months ended March 31, 2009 due to a variety of market conditions and issuer-specific factors, including the placing of Freddie Mac into a conservatorship, Freddie Mac s issuance of new shares of preferred stock that are senior to all previously issued preferred shares, and Freddie Mac s suspension of dividends on

all previously issued preferred shares. The Company evaluated its shares of Freddie Mac preferred stocks at March 31, 2009 for impairment, and concluded that the unrealized losses that existed at that date did not constitute an other-than-temporary impairment under the current accounting guidance.

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 4 Loans Receivable

Loans originated are identified as either held for sale or held for investment and are accounted for accordingly upon their origination. Loans that are classified as held for sale are recorded at the lower of aggregate cost or estimated fair market value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the fair value of the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Premiums and discounts associated with loans purchased are amortized over the contractual term of the loan using the level-yield method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the contractual loan term, adjusted for prepayments. Interest income is discontinued at the time a loan is 90 days delinquent unless the loan is well-secured and there are no asserted or pending legal barriers to its collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans receivable are as follows:

	March 31, 2009	December 31, 2008
One- to four-family residential real estate loans	$ 326,678	$ 323,713
Multi-family mortgage loans	320,480	305,318
Nonresidential real estate loans	341,898	342,276
Construction and land loans	45,967	49,511
Commercial loans	80,249	81,679
Commercial leases	178,982	175,804
Consumer loans	2,605	2,655
Total loans	1,296,859	1,280,956
Loans in process	(217)	(154)
Net deferred loan origination costs	1,912	1,912
Allowance for loan losses	(14,558)	(14,746)
Loans, net	$ 1,283,996	$ 1,267,968

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 4 Loans Receivable *(continued)*

Activity in the allowance for loan losses is as follows:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Beginning balance	$ 14,746	$ 11,051
Provision (credit) for loan losses	1,344	(51)
Loans charged off	(1,536)	(173)
Recoveries	4	3
Ending balance	$ 14,558	$ 10,830

Impaired loans are as follows:

	March 31, 2009	December 31, 2008
Loans with allocated allowance for loan losses	$ 11,804	$ 10,061
Loans with no allocated allowance for loan losses	21,926	15,506
Total impaired loans	$ 33,730	$ 25,567
Amount of the allowance for loan losses allocated to impaired loans	$ 2,044	$ 2,705
Average of impaired loans during the period	$ 29,648	$ 22,944

Cash basis interest income received on impaired loans was approximately $251,000 and $390,000 for the three-month periods ended March 31, 2009 and 2008, respectively.

Nonaccrual loans and loans past due 90 days still on accrual are as follows:

	March 31, 2009	December 31, 2008
Nonaccrual loans	$ 22,736	$ 13,658
90 days delinquent, still accruing	2,383	2,673

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The $2.4 million in loans reflected in the above table as 90 days delinquent, still accruing, represent four well-secured loans in the process of collection. Generally, the Bank does not utilize this category of loan classification unless: (1) the loan is repaid in full shortly after the period end date; (2) the loan is well secured and there are no asserted or pending legal barriers to its collection; or (3) the borrower has remitted all scheduled payments and is otherwise in substantial compliance with the terms of the loan, but the processing of payments actually received or the renewal of a loan has not occurred for administrative reasons.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 4 Loans Receivable *(continued)*

The allowance for loan losses is a valuation allowance for probable incurred credit losses inherent in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience; the nature and volume of the portfolio; information about specific borrower situations; and estimated collateral values, economic conditions, and other factors. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available, or as later events occur or circumstances change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers nonclassified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Multi-family, nonresidential real estate, construction, land, and commercial loans and leases are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Note 5 Deposits

Deposits are as follows:

	March 31, 2009	December 31, 2008
Noninterest-bearing demand	$ 107,021	$ 109,056
Savings	97,531	94,802
Money market accounts	246,443	205,768
Interest-bearing NOW accounts	274,560	285,737
Certificates of deposit	428,183	374,492
	$ 1,153,738	$ 1,069,855

Interest expense on deposit accounts is summarized as follows:

	Three months ended March 31,	
	2009	2008
Savings	$ 121	$ 188
Money market accounts	1,290	1,767
Interest-bearing NOW accounts	663	1,433
Certificates of deposit	3,057	2,920

	$ 5,131	$ 6,308

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 6 Fair Values of Financial Instruments

Financial Accounting Standards Board (FASB) Statement No. 157 *Fair Value Measurements* establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The fair values of marketable equity securities available-for-sale are generally determined by quoted prices, in active markets, for each specific security (Level 1 measurement inputs). If Level 1 measurement inputs are not available for a marketable equity security, the fair value is determined based on the quoted price of a similar security traded in an active market (Level 2 measurement inputs). The fair values of debt securities available-for-sale are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 measurement inputs).

The fair values of loans held for sale are generally determined by quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets (Level 2 measurement inputs).

Impaired loans are evaluated at the time the loan is identified as impaired, and are recorded at the lower of carrying value or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The fair values of mortgage servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 measurement inputs).

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data)

(unaudited)

Note 6 Fair Values of Financial Instruments (***continued***)

The following table sets forth the Company s financial assets that were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
March 31, 2009			
Securities available-for-sale	$ 119,417	$ 411	$ 119,006
December 31, 2008			
Securities available-for-sale	$ 124,919	$ 353	$ 124,919

The following table sets forth the Company s assets that were measured at fair value on a non-recurring basis:

	Fair Value	Fair Value Measurement Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
March 31, 2009			
Impaired loans	$ 11,804	$	$ 11,804
Mortgage servicing rights	1,611		1,611
December 31, 2008			
Impaired loans	$ 10,061	$	$ 10,061
Mortgage servicing rights	1,093		1,093

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount of $11.8 million, with a valuation allowance of $2.0 million at March 31, 2009, compared to a carrying amount of $10.1 million, with a valuation allowance of $2.7 million December 31, 2008, resulting in a credit to the provision for specific loan losses related to SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* of $661,000 for the three months ended March 31, 2009.

Mortgage servicing rights, which are carried at lower of cost or fair value, had a carrying amount of $1.7 million at March 31, 2009, comprised of $1.1 million on fixed rate loans and $565,000 on adjustable rate loans, including a valuation allowance of $183,000 on mortgage servicing

rights of the fixed rate loans. A pre-tax charge of $73,000 was included in net income as an additional reserve on our mortgage servicing rights portfolio for the three month period ended March 31, 2009, compared to $194,000 recorded for the same period 2008. Mortgage servicing rights had a carrying amount of $1.8 million at December 31, 2008, comprised of $1.2 million on fixed rate loans and $629,000 on adjustable rate loans, including a valuation allowance of $110,000 on mortgage servicing rights of the fixed rate loans.

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(Table amounts in thousands, except share and per share data)

(unaudited)

Note 7 Other Comprehensive Income (Loss)

Other comprehensive income (loss) components were as follows:

	Three months ended March 31,	
	2009	2008
Unrealized holding gains (losses) on securities available-for-sale, net of tax	$ 814	$ (100)
Reclassification adjustments for net gains recognized in income, net of tax		(835)
	$ 814	$ (935)

Note 8 Adoption of New Accounting Standards

In December 2007, the FASB issued SFAS No. 141R (revised 2007), *Business Combinations* (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not applicable unless the Company enters into a business combination.

On October 10, 2008, the FASB issued FASB Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Assets When the Market for that Asset is Not Active,* which provides an example that illustrates key considerations in determining the fair value of a financial asset when the market for that asset is not active. The FSP does not change existing U.S. generally accepted accounting principles. The FSP provides clarification on how to consider various inputs in determining fair value under current market conditions consistent with the principles of FSP 157. The FSP includes only one example, as the FASB emphasized the need to apply reasonable judgment to each specific fact pattern. Several additional concepts addressed in the FSP include distressed sales, the use of third party pricing information, the use of internal assumptions and the relevance of observable data, among others. This FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The impact of adoption did not have a material impact on the Company s consolidated financial position or results of operations.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends Statement 133 by requiring expanded disclosures about an entity s derivative instruments and hedging activities, but does not change Statement 133 s scope or accounting. This statement requires increased qualitative, quantitative, and credit-risk disclosures. SFAS 161 also amends Statement No. 107 to clarify that derivative instruments are subject to Statement 107 s concentration-of-credit-risk disclosures. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008. The impact of adoption did not have a material impact on the Company s consolidated financial position or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

Note 8 Adoption of New Accounting Standards *(continued)*

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. (FSP EITF 03-6-1). This FASB Staff Position (FSP) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method of FASB Statement No. 128, *Earnings Per Share*. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented were to be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. The Company s unvested restricted stock awards do not contain nonforfeitable rights to dividends, they are not included under the scope of this pronouncement, and therefore, the impact of adoption was not material.

Note 9 Newly Issued But Not Yet Effective Accounting Standards

In April 2009 the FASB issued FSP 115-2 & 124-2 *Recognition and Presentation of Other-Than Temporary Impairments.* The FSP eliminates the requirement for the issuer to evaluate whether it has the intent and ability to hold an impaired investment until maturity. Conversely, the new FSP requires the issuer to recognize an OTTI in the event that the issuer intends to sell the impaired security or in the event that it is more likely than not that the issuer will sell the security prior to recovery. In the event that the sale of the security in question prior to its maturity is not probable but the entity does not expect to recover its amortized cost basis in that security, then the entity will be required to recognize an OTTI. In the event that the recovery of the security s cost basis prior to maturity is not probable and an OTTI is recognized, the FSP provides that any component of the OTTI relating to a decline in the creditworthiness of the debtor should be reflected in earnings, with the remainder being recognized in Other Comprehensive Income. Conversely, in the event that the issuer determines that sale of the security in question prior to recovery is probable, then the entire OTTI will be recognized in earnings. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect the adoption to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In April 2009 the FASB issued FSP 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The FSP provides additional guidance for determining fair value based on observable transactions. The FSP provides that if evidence suggests that an observable transaction was not executed orderly that little, if any, weight should be assigned to this indication of an Asset or Liability s fair value. Conversely, if evidence suggests that the observable transaction was executed orderly that the transaction price of the observable transaction may be appropriate to use in determining the fair value of the Asset/Liability in question, with appropriate weighting given to this indication based on facts and circumstances. Finally, if there is no way for the entity to determine whether the observable transaction was executed orderly, relatively less weight should be ascribed to this indicator of fair value. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect the adoption to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In April 2009 the FASB issued FSP 107-1 & APB 28-1 *Interim Disclosures about Fair Value of Financial Instruments*. The FSP provides that publicly traded companies shall provide information concerning the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In periods after initial adoption this FSP requires comparative disclosures only for periods ending after initial adoption. The FSP is effective for interim reporting periods ending after June 15, 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Cautionary Statement Regarding Forward-Looking Information

Forward Looking Statements

This Quarterly Report on Form 10-Q, including this Item 2, contains, and other periodic and special reports and press releases of BankFinancial Corporation may contain, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that involve significant risks and uncertainties. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for the purpose of invoking these safe harbor provisions. Forward-looking statements are based on certain assumptions or describe our future plans, strategies and expectations, and are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project, plan, or similar ex Our ability to predict results or the actual effect of plans or strategies is inherently uncertain, and actual results may differ from those predicted. Factors that could have a material adverse effect on operations and could affect management s outlook or our future prospects include, but are not limited to: higher than expected overhead, infrastructure and compliance costs, changes in market interest rates, changes in the yield curve, balance sheet shrinkage or less than anticipated balance sheet growth, lack of demand for loan products, illiquidity and changes in financial markets, including the market for mortgage backed securities and other debt obligations, declining demand for real estate and real estate valuations, increasing unemployment levels, deposit flows, pricing, underwriting and other forms of competition, adverse federal or state legislative or regulatory developments, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and Federal Reserve Board, adverse economic conditions that could result in increased delinquencies in our loan portfolio or a decline in the value of our investment securities and the collateral for our loans, the quality or composition of our loan or investment portfolios, demand for financial services and multi-family, commercial and residential real estate loans in our market areas, the possible short-term dilutive effect of potential acquisitions or de novo branches, if any, changes in accounting principles, policies and guidelines, increased costs of federal deposit insurance, and future adverse developments concerning the Federal Home Loan Bank of Chicago. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We do not undertake any obligation to update any forward-looking statement in the future, or to reflect circumstances and events that occur after the date on which the forward-looking statement was made.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in the discussion entitled Critical Accounting Policies in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and all amendments thereto, as filed with the Securities and Exchange Commission. There are no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K.

Overview

Business conditions continued to exhibit significantly divergent characteristics in the first quarter of 2009. New loan and lease opportunities are increasingly available at quite attractive pricing, but uncertainties regarding forward corporate earnings and, in particular, concerns about investment real estate valuations, caused us to be even more conservative than our underwriting standards would otherwise dictate. Similarly, the competitive environment for deposits is more favorable than at any time in the recent past, but the unpredictability of future net loan growth and the very low returns on investment securities limited our interest in more aggressive deposit growth. Local economic conditions remain fragile, with rising unemployment affecting the retail sales and service sectors to a greater degree than in the previous quarter.

Multi-family loan balances increased modestly due to favorable competitive conditions and a broader geographic market territory. Commercial real estate loan balances were stable as fewer real estate investors are willing to enter or exit the market. Commercial leasing activity increased materially, but net balance growth remained limited because of the short amortization periods generally applicable to the existing commercial lease portfolio. Commercial loan balances declined slightly due to lower working capital usage by some borrowers; this trend could accelerate if the State of Illinois improves the frequency of remittances to certain health-care borrowers.

Residential loan balances increased due to a larger quantity of loans held for sale in the secondary market and increased home equity line of credit usage resulting primarily from seasonal factors. Construction loans balances declined due to project sales, as we continued to pursue prudent inventory liquidation avenues with borrowers where necessary.

Deposits increased during the quarter, principally due to increased marketing efforts and a considerably more favorable competitive environment, especially for retail certificates of deposit. Our focus on retaining core deposit relationships within current FDIC insurance limits resulted in the stabilization of such deposit balances within product lines that are not indexed to current market rates. Given these conditions, we reduced wholesale deposit and other borrowing balances during the quarter and we expect to continue doing so as conditions further permit.

Overall trends in our owner-occupied residential and multi-family loan portfolios remained stable. A modest negative trend emerged in investor-owned single-family buildings, but in at least two of the three situations encountered, the borrowers failed to remit rental income they received from occupied properties due to unrelated cash flow issues. The current and anticipated supply of single-family residences on the market will likely result in longer holding periods for some of these properties following the conclusion of formal collection action, but we do not expect any material negative financial impact from these trends at present.

The significantly extended absorption periods for new single-family construction and individual building sites resulted in a total of $8.8 million in loans being placed on non-accrual status during the quarter due to the exhaustion of the borrowers ability to continue debt service on a cash basis. Of the total $9.4 million in non-accrual loans within this segment, approximately $5.2 million is secured by three completed single-family homes in the northern suburbs of Chicago, and the remaining balance is secured by several individual building sites for single-family homes, one small single-family attached development parcel and two small commercial parcels located in similar markets. Given our extensive real estate development management experience, we are prepared to retain certain improved development sites for future disposition if the underlying facts and circumstances make it materially financially advantageous for us to do so.

We began to see some signs of stress in the commercial real estate portfolio, both with respect to investment and owner-occupied real estate. Some retail tenants are requesting and receiving rental reductions and office space absorption remains weak due to the contraction of economic activity generally. During the quarter, we placed $3.8 million of commercial real estate loans on non-accrual status, including a $2.7 million loan secured by a northwest suburban Chicago industrial / office building for which the borrower had exhausted family financial resources to pay debt service and leasing agency services. The remaining increase in non-accruing commercial real estate loans is due to two situations where the borrower s business cash flow difficulties resulted in the borrower s failure to remit existing rental income or were simply insufficient to continue debt service payments as scheduled. In general, we pursue both informal and formal collection actions designed to maximize occupancy or locate an alternative user or investor for the collateral or the business itself on an expedited basis wherever possible.

It should also be noted that the Circuit Court of Cook County, Illinois, in which a substantial majority of our real estate collateral is located, recently issued an order suspending the entry of judgments and orders of sale in any mortgage foreclosure suit filed in 2009 and default judgments in previously filed suits until at least September 1, 2009, subject to certain limited exceptions. We are unable to predict the impact of this action on borrower behavior and its effect on market inventory and valuation levels at this time, but we anticipate that, at the very least, the inability to promptly pursue all available collection remedies will delay the full realization of real estate collateral proceeds and thus the reduction of non-accrual credit exposures.

Overall trends in our commercial lease and commercial loan portfolios remained stable; however, we anticipate that economic conditions will place increasing stress on smaller businesses in general and any business relating to domestic automobile manufacturing or construction services. Our largest exposure to the automotive sector is a $1.2 million commercial lease exposure to Daimler-Chrysler LLC, originated in 2006-2007, which is secured by manufacturing equipment with a remaining weighted-average term to maturity of 30.7 months. The material uncertainties regarding both the company and any related U.S. Government action make it at least reasonably foreseeable that some or all of this exposure may become uncollectable in the future depending on the timing of any interruption in payments and the net realizable value of the collateral.

Our net interest margin and net interest spread declined modestly, principally due to the effects of the increase in loans on nonaccrual status offsetting growth in loan interest income during the quarter. Given the volatility in market interest rates, prospective loan and deposit balances and other factors, we believe that it is not presently possible to reliably make accurate statements concerning net interest margin and net interest spread trends for the immediate future.

Our non-interest income decreased during the quarter due in part to reduced deposit-related fee income related to reductions in retail spending. Other factors affecting non-interest income included our decision to move our Bank-Owned Life Insurance investment into a low-yielding money-market sub-account at the end of 2008 as a means to protect its underlying value, a required valuation allowance that we recorded on our mortgage loan servicing rights based on market conditions, and higher management or disposition costs for real estate owned.

Our non-interest expenses remained well-contained, with increases in compensation related to seasonal payroll tax factors and certain benefit costs related to terminated employees. Continued discipline on operating expenses, including the completion of all remaining functional reviews, remains a key focus for the balance of 2009.

Selected Financial Data

The following tables summarize the major components of the changes in our balance sheet at March 31, 2009 and December 31, 2008, and in our income statement for the three-month periods ended March 31, 2009 and March 31, 2008.

	March 31, 2009	December 31, 2008	Percent Change
	(Dollars in thousands)		
Selected Financial Condition Data:			
Total assets	$ 1,557,909	$ 1,554,701	0.2%
Loans receivable, net	1,283,996	1,267,968	1.3
Deposits	1,153,738	1,069,855	7.8
Borrowings	123,995	200,350	(38.1)
Stockholders equity	265,647	266,791	(0.4)

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Selected Financial Data (*continued*)

	Three months ended March 31, 2009	2008	Percent Change
	(Dollars in thousands)		
Selected Operating Data:			
Interest income	$ 18,906	$ 20,742	(8.9)%
Interest expense	5,736	7,469	(23.2)
Net interest income	13,170	13,273	(0.8)
Provision (credit) for loan losses	1,344	(51)	N.M.
Net interest income after provision (credit) for loan losses	11,826	13,324	(11.2)
Noninterest income	1,389	4,706	(70.5)
Noninterest expense	12,789	13,228	(3.3)
Income before income taxes	426	4,802	N.M.
Provision for income taxes	254	1,610	N.M.
Net income	$ 172	$ 3,192	N.M.

	Three Months Ended March 31, 2009	2008
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on assets (ratio of net income to average total assets) (1)	0.04%	0.87%
Return on equity (ratio of net income to average equity) (1)	0.26	4.37
Net interest rate spread (1) (2)	3.36	3.29
Net interest margin (1) (3)	3.74	3.93
Average equity to average assets	17.36	19.87
Efficiency ratio (4)	87.84	73.57
Noninterest expense to average total assets (1)	3.31	3.60
Average interest-earning assets to average interest-bearing liabilities	123.50	128.96

(1) Ratios are annualized.
(2) The net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities for the period.
(3) The net interest margin represents net interest income divided by average total interest-earning assets for the period.
(4) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.
N.M. Not meaningful

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Selected Financial Data **(continued)**

	At March 31, 2009	At December 31, 2008
Selected Financial Ratios and Other Data:		
Asset Quality Ratios:		
Nonperforming assets to total assets	1.54%	0.94%
Nonperforming loans to total loans	1.75	1.07
Allowance for loan losses to nonperforming loans	64.03	107.97
Allowance for loan losses to total loans	1.12	1.15
Capital Ratios:		
Equity to total assets at end of period	17.05	17.16
Tier 1 leverage ratio (Bank only)	12.20	12.08
Other Data:		
Number of full service offices	18	18
Employees (full-time equivalent basis)	390	393

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

Total assets increased $3.2 million, or 0.21%, to $1.558 billion at March 31, 2009, from $1.555 billion at December 31, 2008, primarily due to a $16.0 million, or 1.3%, increase in net loans receivable to $1.284 billion at March 31, 2009 from $1.268 billion at December 31, 2008. The increase in net loans receivable reflected net increases of $15.2 million in multi-family mortgage loans, $3.0 million in one-to four-family residential mortgage loans and a $3.2 million in commercial leases. Construction and land loans decreased $3.5 million, and commercial loans decreased by $1.4 million.

Net securities available-for-sale decreased by $5.5 million, or 4.4%, to $119.4 million at March 31, 2009, from $124.9 million at December 31, 2008, primarily due to principal reductions of $6.9 million.

We owned $15.6 million of common stock of the Federal Home Loan Bank of Chicago (FHLBC) at March 31, 2009 and December 31, 2008. On October 10, 2007, the FHLBC entered into a consensual cease and desist order with the Federal Housing Finance Board, now known as the Federal Housing Finance Agency (the FHFA). Under the terms of the order, capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other termination, are prohibited unless the FHLBC receives the prior approval of the Director of the Office of Supervision of the FHFA (the Director). The order also provides that dividend declarations are subject to the prior written approval of the Director and required the FHLBC to submit a Capital Structure Plan to the FHFA. The FHLBC has not paid dividends on its common stock since the third quarter of 2007, and has announced that it does not anticipate paying any dividends in 2009. The FHLBC has submitted but has not received approval of a Capital Structure Plan. In July of 2008, the FHFA amended the order to permit the FHLBC to repurchase or redeem newly-issued capital stock to support new advances, subject to certain conditions set forth in the order. Our FHLBC common stock is not affected by this amendment because it is not newly-issued stock.

Cash and cash equivalents decreased $6.3 million, or 21.5%, to $23.0 million at March 31, 2009, from $29.3 million at December 31, 2008.

Deposits increased $84.0 million, or 7.8%, to $1.154 billion at March 31, 2009, from $1.070 billion at December 31, 2008, primarily due to increased money market accounts and certificate of deposit balances. Money market accounts increased $40.7 million, or 19.8% to $246.4 million at March 31, 2009, and certificates of deposit increased $53.7 million, or 14.3%, to $428.2 million at March 31, 2009, from $374.5 million at December 31, 2008. Total core deposits (savings, money market, noninterest-bearing demand and interest-bearing NOW accounts) decreased as a percentage of total deposits, representing 62.9% of total deposits at March 31, 2009, compared to 65.0% of total deposits at December 31, 2008. Borrowings decreased $76.4 million, or 38.1%, to $124.0 million at March 31, 2009, from $200.4 million at December 31, 2008, due to our reductions of outstanding FHLBC advances.

Total stockholders equity was $265.6 million at March 31, 2009, compared to $266.8 million at December 31, 2008. The decrease in total stockholders equity was primarily due to the combined impact of our repurchase of 207,800 shares of our common stock at a total cost of $1.8 million and our declaration and payment of cash dividends totaling $1.5 million. These items were partially offset by net income of $172,000 for the three months ended March 31, 2009, an $814,000 increase in accumulated other comprehensive income during that period, and a $940,000 increase in additional paid in capital resulting from the vesting of stock-based compensation and ESOP shares earned. The unallocated shares of common stock that our ESOP owns were reflected as a $15.9 million reduction to stockholders equity at March 31, 2009, compared to a $16.1 million reduction to stockholders equity at December 31, 2008.

Comparison of Operating Results for the Three Months Ended March 31, 2009 and 2008

Net Income. We had net income of $172,000 for the three months ended March 31, 2009, compared to net income of $3.2 million for the three months ended March 31, 2008. Our earnings per share of common stock for the three months ended March 31, 2009 were $0.01 per basic and fully diluted share, respectively, compared to earnings of $0.16 per basic and fully diluted share for the three-month period ending March 31, 2008.

Net Interest Income. Net interest income decreased by $103,000, or 0.8%, to $13.2 million for the three months ended March 31, 2009, from $13.3 million for the three months ended March 31, 2008. The decrease reflected a $1.8 million decrease in interest income, which was substantially offset by a $1.7 million decrease in interest expense. Our net interest rate spread increased by seven basis points to 3.36% for the three months ended March 31, 2009, from 3.29% for the same period in 2008. Our net interest margin decreased by 19 basis points to 3.74% for the three months ended March 31, 2009, from 3.93% for the same period in 2008.

Interest income decreased $1.8 million, or 8.9%, to $18.9 million for the three months ended March 31, 2009, from $20.7 million for the three months ended March 31, 2008. The decrease in interest income was primarily attributable to the impact of lower short term interest rates on the average yield on interest-earning assets, the impact of which was mitigated by an increase in average interest earning assets. The average yield on interest-earning assets declined 77 basis points to 5.37% for the three months ended March 31, 2009, compared to 6.14% for the same period in 2008. Total average interest-earning assets increased $68.5 million, or 5.0%, to $1.427 billion for the three months ended March 31, 2009, from $1.358 billion for the same period in 2008. The increase in average interest earning assets was due in substantial part to a $28.0 million, or 2.2%, increase in average loans receivable, and a net increase of $39.7 million, or 47.6%, in the average balance of securities available-for-sale.

Interest income from loans, the most significant portion of interest income, decreased $2.0 million, or 10.3%, to $17.6 million for the three months ended March 31, 2009, from $19.6 million for the same period in 2008. The decrease in interest income from loans resulted primarily from a 72 basis point decrease in the average yield on loans to 5.54% for the three months ended March 31, 2009, from 6.26% for the same period in 2008. The decrease in the average yield on loans was partially offset by a $28.0 million, or 2.2%, increase in average loans receivable to $1.285 billion for the three months ended March 31, 2009, from $1.257 billion for the same period in 2008. The increase in average loans receivable reflected increases in the average balances of multi-family mortgage loans, nonresidential real estate loans and commercial leases of $13.2 million, $14.3 million, and $34.5 million, respectively.

Interest income from securities available-for-sale increased by $197,000, or 17.2%, to $1.3 million for the three months ended March 31, 2009, from $1.1 million for the same period in 2008. The increase in interest income from securities available-for-sale was primarily due to an increase of $39.8 million, or 47.6%, in the average outstanding balance of securities available-for-sale to $123.3 million for the three months ended March 31, 2009, from $83.5 million for the same period in 2008. The increase in the outstanding balance of securities available-for-sale was partially offset by a 110 basis point decrease in the average yield on securities to 4.42% for the three months ended March 31, 2009 from 5.52% for the same period in 2008. The FHLBC did not pay dividends on its common stock in the first quarter of 2009 or 2008.

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Interest expense decreased $1.8 million, or 23.2%, to $5.7 million for the three months ended March 31, 2009, from $7.5 million for the three months ended March 31, 2008. The decrease in interest expense was due in part to a decrease in the weighted average interest rates that we paid on deposit accounts and on FHLBC advances and other borrowings. The cost of our average interest-bearing liabilities decreased by 84 basis points to 2.01% for the three months ended March 31, 2009, from 2.85% for the same period in 2008. The decrease in the interest rates that we paid on deposit accounts, FHLBC advances and other borrowings was partially offset by a $102.1 million, or 9.7%, increase in our average interest-bearing liabilities to $1.155 billion for the three months ended March 31, 2009, from $1.053 billion for the same period in 2008.

Interest expense on deposits decreased $1.2 million, or 18.7%, to $5.1 million for the three months ended March 31, 2009, from $6.3 million for the three months ended March 31, 2008. The decrease in interest expense on deposits reflected a 63 basis point decrease in the average rate paid on interest-bearing deposits to 2.06% for the three months ended March 31, 2009, from 2.69% for same period in 2008. The decrease in the average rate paid on interest-bearing deposits was partially offset by a $64.8 million, or 6.9%, increase in average interest-bearing deposits to $1.008 billion for the three months ended March 31, 2009, from $943.5 million for the same period in 2008.

Interest expense on money market accounts decreased $477,000, or 27.0%, to $1.3 million for the three months ended March 31, 2009, from $1.8 million for the three months ended March 31, 2008. The decrease in interest expense on money market accounts reflected a 62 basis point decrease in the interest rate paid on these deposits to 2.32%, from 2.94% for the same period in 2008, and a $16.3 million, or 6.7%, decrease in the average balance of money market accounts to $225.8 million for the three months ended March 31, 2009, from $242.1 million for the same period in 2008.

Interest expense on interest-bearing NOW account deposits decreased $770,000, or 53.7%, to $663,000 for the three months ended March 31, 2009, from $1.4 million for the three months ended March 31, 2008. The decrease in interest expense on interest-bearing NOW accounts reflected a 93 basis point decrease in the interest rates paid on interest-bearing NOW account deposits to 0.98% for the three months ended March 31, 2009, from 1.91% for the same period in 2008, and a decrease of $25.6 million, or 8.5%, in the average balance of interest-bearing NOW account deposits to $275.6 million for the three months ended March 31, 2009, from $301.2 million for the same period in 2008.

Interest expense on certificates of deposit increased $137,000, or 4.7%, to $3.1 million for the three months ended March 31, 2009, from $2.9 million for the three months ended March 31, 2008. The increase in interest expense on certificates of deposit was primarily due to an increase of $108.8 million, or 36.0%, in the average balance of certificates of deposit to $410.9 million for the three months ended March 31, 2009, from $302.1 million for the same period in 2008. This increase in the average balance of certificates of deposit was partially offset by an 87 basis point decrease in the interest rates paid on certificates of deposit to 3.02% for the three months ended March 31, 2009, from 3.89% for the same period in 2008.

Interest expense on borrowings decreased $556,000, or 47.9%, to $605,000 for the three months ended March 31, 2009, from $1.2 million for the same period in 2008. The decrease was primarily due to a 258 basis point decrease in interest rates paid on borrowings to 1.67% for the three months ended March 31, 2009, from 4.25% for the same period in 2008. The decrease in interest rates on borrowings was partially offset by $37.3 million, or 34.0%, increase of our average borrowings to $147.1 million for the three months ended March 31, 2009, from $109.8 million for the same period in 2008. The decrease in the interest rate on borrowings was primarily attributable to declines in overnight market interest rates, our decision in December of 2008 to retire a $25.0 million FHLBC term advance and replace it with a new FHLBC advance with an adjustable interest rate, and other balance sheet restructuring activities.

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Average Balance Sheets

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect of these adjustments would not be material. Average balances are daily average balances. Nonaccrual loans have been included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include, where applicable, the effect of deferred fees and expenses, discounts and premiums, and purchase accounting adjustments that are amortized or accreted to interest income or expense.

	For the three months ended March 31,					
	2009			2008		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 1,285,125	$ 17,563	5.54%	$ 1,257,089	$ 19,578	6.26%
Securities available-for-sale	123,278	1,343	4.42	83,536	1,146	5.52