Kaiser Federal Financial Group, Inc.
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-34979

KAISER FEDERAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**26-1500698**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation)	**Identification No.)**
1359 N. Grand Avenue, Covina, CA	**91724**
(Address of principal executive offices)	**(Zip Code)**

(800) 524-2274

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, $.01 par value 8,737,391 shares outstanding as of November 5, 2012.

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KAISER FEDERAL FINANCIAL GROUP, INC.

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	September 30, 2012	June 30, 2012
ASSETS		
Cash and due from banks	$ 8,716	$ 9,783
Federal funds sold	70,855	56,235
Total cash and cash equivalents	79,571	66,018
Securities available-for-sale, at fair value	48,562	53,397
Securities held-to-maturity, fair value of $1,015 and $1,229 at September 30, 2012 and June 30, 2012, respectively	986	1,197
Federal Home Loan Bank stock, at cost	8,085	8,525
Loans held for sale	5,739	
Loans receivable, net of allowance for loan losses of $6,392 and $7,502 at September 30, 2012 and June 30, 2012, respectively	743,457	764,717
Accrued interest receivable	2,856	2,778
Premises and equipment, net	2,847	2,850
Goodwill	3,950	3,950
Bank-owned life insurance	13,450	13,334
Real estate owned (REO)	610	1,280
Other assets	5,300	5,284
Total assets	$ 915,413	$ 923,330
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 61,358	$ 71,319
Interest bearing	616,534	611,570
Total deposits	677,892	682,889
Federal Home Loan Bank advances, short-term	20,000	20,000
Federal Home Loan Bank advances, long-term	60,000	60,000
Accrued expenses and other liabilities	5,213	6,293
Total liabilities	763,105	769,182
Commitments and contingent liabilities		
Stockholders equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding none		

Common stock, $0.01 par value; 100,000,000 authorized; September 30, 2012 8,791,292 shares issued June 30, 2012 8,960,366 shares issued	88	90
Additional paid-in capital	89,418	92,197
Retained earnings	67,431	66,723
Accumulated other comprehensive loss, net of tax	(40)	(169)
Unearned employee stock ownership plan (ESOP) shares	(4,589)	(4,693)
Total stockholders equity	152,308	154,148
Total liabilities and stockholders equity	$ 915,413	$ 923,330

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2012	2011
Interest income		
Interest and fees on loans	$ 9,718	$ 10,028
Interest on securities, taxable	81	156
Federal Home Loan Bank dividends	10	7
Other interest	32	86
Total interest income	9,841	10,277
Interest expense		
Interest on deposits	1,748	2,073
Interest on borrowings	469	794
Total interest expense	2,217	2,867
Net interest income	7,624	7,410
Provision for loan losses	850	
Net interest income after provision for loan losses	6,774	7,410
Noninterest income		
Service charges and fees	409	435
ATM fees and charges	526	533
Referral commissions	88	79
Loss on equity investment	(52)	(94)
Bank-owned life insurance	116	120
Net gain on sales of loans	424	
Other noninterest income	4	5
Total noninterest income	1,515	1,078
Noninterest expense		
Salaries and benefits	3,222	2,662
Occupancy and equipment	713	676
ATM expense	521	490
Advertising and promotional	132	74
Professional services	495	499
Federal deposit insurance premiums	153	121
Postage	63	64
Telephone	228	187
REO foreclosure expenses and sales gains/losses, net	(15)	(26)

Other operating expense	578	440
Total noninterest expense	6,090	5,187
Income before income tax expense	2,199	3,301
Income tax expense	806	1,248
Net income	$ 1,393	$ 2,053
Earnings per common share:		
Basic	$ 0.16	$ 0.22
Diluted	$ 0.16	$ 0.22

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Net income	$ 1,393	$ 2,053
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale	219	(15)
Income tax effect	(90)	6
Other comprehensive income (loss), net of tax	129	(9)
Comprehensive income	$ 1,522	$ 2,044

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders Equity

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Unearned ESOP Shares	Total
Balance, July 1, 2011	9,574,960	$ 96	$ 100,599	$ 61,832	$ (21)	$ (5,107)	$ 157,399
Net income				2,053			2,053
Other comprehensive loss unrealized loss on securities, net of tax					(9)		(9)
Dividends declared ($0.06 per share)				(548)			(548)
Stock options earned			17				17
Stock options exercised	7,194		78				78
Allocation of stock awards			46				46
Issuance of stock awards	25,000						
Forfeiture of stock awards	(2,000)						
Allocation of ESOP common stock			22			104	126
Balance, September 30, 2011	9,605,154	$ 96	$ 100,762	$ 63,337	$ (30)	$ (5,003)	$ 159,162
Balance, July 1, 2012	8,960,366	$ 90	$ 92,197	$ 66,723	$ (169)	$ (4,693)	$ 154,148
Net income				1,393			1,393
Other comprehensive income unrealized gain on securities, net of tax					129		129
Dividends declared ($0.08 per share)				(685)			(685)
Repurchase of common stock	(193,533)	(2)	(2,911)				(2,913)
Stock options earned			11				11
Allocation of stock awards			69				69
Issuance of stock awards	25,259						
Forfeiture of stock awards	(800)						
Allocation of ESOP common stock			52			104	156
Balance, September 30, 2012	8,791,292	$ 88	$ 89,418	$ 67,431	$ (40)	$ (4,589)	$ 152,308

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2012	2011
OPERATING ACTIVITIES		
Net income	$ 1,393	$ 2,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities	225	78
Amortization (Accretion) of net premiums (discounts) on loan purchases	98	(2)
Amortization of net loan origination costs	34	9
Provision for loan losses	850	
Net gain on sale of REO	(16)	(40)
Net gain on sales of loans held for sale	(424)	
Loans originated for sale	(16,656)	
Proceeds from sales of loans held for sale	11,322	
Depreciation and amortization	243	200
Amortization of core deposit intangible	6	10
Loss on equity investment	52	94
Earnings on cash surrender value of bank-owned life insurance	(116)	(120)
Allocation of ESOP common stock	156	126
Allocation of stock awards	69	46
Stock options earned	11	17
Net change in accrued interest receivable	(78)	(50)
Net change in other assets	(164)	(171)
Net change in accrued expenses and other liabilities	(1,080)	(932)
Net cash (used in) provided by operating activities	(4,075)	1,318
INVESTING ACTIVITIES		
Purchase of available-for-sale securities		(26,615)
Proceeds from maturities and principal repayments of available-for-sale securities	4,829	6,046
Proceeds from maturities and principal repayments of held-to-maturity securities	211	198
Net change in interest earning time deposits with other financial institutions		3,938
Purchases of loans		(35,432)
Net change in loans	20,297	13,741
Proceeds from sale of real estate owned	686	1,102
Redemption of FHLB stock	440	460
Purchases of premises and equipment	(240)	(682)
Net cash provided by (used in) investing activities	26,223	(37,244)
FINANCING ACTIVITIES		
Proceeds from FHLB advances		60,000
Repayment of FHLB Advances		(20,000)
Dividends paid on common stock	(685)	(548)

Repurchase of common stock	(2,913)	
Net change in deposits	(4,997)	17,404
Exercise of stock options		78
Net cash (used in) provided by financing activities	(8,595)	56,934
Net change in cash and cash equivalents	13,553	21,008
Cash and cash equivalents at beginning of period	66,018	89,654
Cash and cash equivalents at end of period	$ 79,571	$ 110,662

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Continued)

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$ 2,211	$ 2,850
Income taxes paid	1,000	1,229
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$	$ 289

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Nature of Business and Significant Accounting Policies

Nature of Business: Kaiser Federal Financial Group, Inc. (the Company) is a Maryland corporation that owns all of the outstanding common stock of Kaiser Federal Bank (the Bank). It is the successor to K-Fed Bancorp following the completion of the second-step conversion and offering in November 2010. The Company s primary activity is holding all of the outstanding shares of common stock of Kaiser Federal Bank. The Bank is a federally chartered savings bank headquartered in Covina, California. The Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in its market area, and to a lesser extent, commercial real estate, automobile and other consumer loans. While the Bank originates many types of residential loans, the Bank purchased, using its own underwriting standards, a significant number of first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California.

The Company s business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

Principles of Consolidation and Basis of Presentation: The financial statements of Kaiser Federal Financial Group, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and predominant practices followed by the financial services industry. The consolidated financial statements presented in this report include the accounts of Kaiser Federal Financial Group, Inc. and its wholly-owned subsidiary, Kaiser Federal Bank. All material intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company s management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.

The results of operations for the three months ended September 30, 2012 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2013. Certain information and note disclosures normally included in the Company s annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Use of Estimates in the Preparation of Consolidated Financial Statements: The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate owned and financial instruments.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Loans held for sale consist primarily of long-term fixed-rate loans secured by first trust deeds on one-to-four-family residences that are Freddie Mac loan products. The loans are offered to customers located in California and are generally sold with servicing rights retained. 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.

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Recent Accounting Pronouncements:

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In July 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. In accordance with the amendments in this Update, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. An entity will be able to resume performing the qualitative assessment in any subsequent period. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company s result of operations or financial position.

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Note 2 Earnings Per Share

The following table sets forth earnings per share calculations for the three months ended September 30, 2012 and 2011:

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	(Dollars in thousands, except per share data)			
Basic				
Net income	$	1,393	$	2,053
Less: Net income allocated to restricted stock awards		10		10
Net income allocated to common shareholders	$	1,383	$	2,043
Weighted average common shares outstanding		8,433,462		9,084,176
Basic earnings per common share	$	0.16	$	0.22
Diluted				
Net income	$	1,393	$	2,053
Less: Net income allocated to restricted stock awards		10		10
Net income allocated to common shareholders	$	1,383	$	2,043
Weighted average common shares outstanding		8,433,462		9,084,176
Add: Dilutive effect of stock options		17,404		2,004
Average shares and dilutive potential common shares		8,450,866		9,086,180
Diluted earnings per common share	$	0.16	$	0.22

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings per share is determined for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Restricted stock contains rights to non-forfeitable dividends and qualifies as a participating security. Employee Stock Ownership Plan (ESOP) shares are considered outstanding for this calculation unless unearned. For the three months ended September 30, 2012, 10,355 ESOP shares were allocated and 414,207 ESOP shares remained unearned.

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. For the three months ended September 30, 2012 and 2011, outstanding stock options to purchase 199,935 shares and 294,530 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. Stock options are not considered participating securities as they do not contain rights to non-forfeitable dividends.

Note 3 Fair Value Measurements

FASB ASC 820-10 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: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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.

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three month ended September 30, 2012 and 2011.

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Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive allocations of the allowance for loan losses that are individually evaluated. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower s financial statements, or aging reports, adjusted or discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

As of September 30, 2012 and June 30, 2012, there were no liabilities measured at fair value.

Assets measured at fair value on a recurring basis are summarized in the following table (in thousands):

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets at September 30, 2012:				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 17,341	$	$ 17,341	$
Collateralized mortgage obligations (residential)	31,221		31,221	
Total available-for-sale securities	$ 48,562	$	$ 48,562	$
Assets at June 30, 2012:				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 19,371	$	$ 19,371	$
Collateralized mortgage obligations (residential)	34,026		34,026	
Total available-for-sale securities	$ 53,397	$	$ 53,397	$

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Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The following assets were measured at fair value on a non-recurring basis (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at September 30, 2012:				
Impaired Loans				
One-to-four family residential	$ 3,811	$	$	$ 3,811
Assets at June 30, 2012:				
Impaired Loans				
One-to-four family residential	$ 11,359	$	$	$ 11,359
Multi-family residential	1,456			1,456
Commercial real estate	1,299			1,299
Total impaired loans	$ 14,114	$	$	$ 14,114

Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment using the fair value of the collateral for collateral dependent loans. The fair value of collateral is calculated using an independent third party appraisal. Impaired loans measured at fair value had a recorded investment balance of $4.7 million at September 30, 2012 as compared to $16.9 million at June 30, 2012. The valuation allowance for these loans was $899,000 at September 30, 2012 as compared to $2.8 million at June 30, 2012. The reduction of valuation allowance for impaired loans was primarily attributable to charge-offs of specific valuation allowances previously identified during the three months ended September 30, 2012.

Real estate owned is measured at fair value less estimated costs to sell at transfer. If the fair value of the asset declines, a write-down is recorded through expense. During the three months ended September 30, 2012 and September 30, 2011, the Company did not incur a charge to reduce real estate owned to fair value.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2012 (dollars in thousands):

September 30, 2012	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired Loans				
One-to-four family residential	$ 3,811	Sales comparison approach	Adjustment for the differences between the comparable sales	-14.7% to 4.3% (-1.2%)

Fair Value of Financial Instruments

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values. Cash on hand and non-interest due from bank accounts are classified as Level 1 and federal funds sold are classified as Level 2.

Investments

Estimated fair values for securities held-to-maturity are obtained from quoted market prices where available and are classified as Level 1. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and are classified as Level 2.

Securities available-for-sale that are previously reported are excluded from the fair value disclosure below.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

Fair value for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously and are excluded from the fair value disclosure below. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Accrued Interest Receivable

Consistent with the asset or liability they are associated with, the carrying amounts of accrued interest receivable approximate fair value resulting in a either Level 2 or Level 3 classification.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB Advances

The fair values of the Company s FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-Balance Sheet Financial Instruments

The fair values for the Company s off-balance sheet loan commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the Company s customers. The estimated fair value of these commitments is not significant.

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The carrying amounts and estimated fair values of the Company s financial instruments are summarized as follows (in thousands):

	Carrying Amount	Fair Value Measurements at September 30, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 8,716	$ 8,716	$	$	$ 8,716
Federal funds sold	70,855		70,855		70,855
Securities held-to-maturity	986		1,015		1,015
Federal Home Loan Bank Stock	8,085			NA	NA
Loans receivable, net	744,486			777,878	777,878
Accrued interest receivable - loans	2,767			2,767	2,767
Accrued interest receivable - investments	89		89		89
Financial liabilities:					
Deposits	677,892		687,927		687,927
FHLB Advances	80,000		84,625		84,625

	Carrying Amount	Fair Value Measurements at June 30, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 9,783	$ 9,783	$	$	$ 9,783
Federal funds sold	56,235		56,235		56,235
Securities held-to-maturity	1,197		1,229		1,229
Federal Home Loan Bank Stock	8,525			NA	NA
Loans receivable, net	750,603			777,672	777,672
Accrued interest receivable - loans	2,676			2,676	2,676
Accrued interest receivable - investments	102		102		102
Financial liabilities:					
Deposits	682,889		692,971		692,971
FHLB Advances	80,000		82,960		82,960

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Note 4 Investments

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

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
September 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 12,523	$ 264	$	$ 12,259
Freddie Mac	4,818	77		4,741
Collateralized mortgage obligations (residential):				
Fannie Mae	19,079	49	(79)	19,109
Freddie Mac	12,142	49		12,093
Total	$ 48,562	$ 439	$ (79)	$ 48,202
June 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 13,961	$ 183	$	$ 13,778
Freddie Mac	5,410	46		5,364
Collateralized mortgage obligations (residential):				
Fannie Mae	21,060	8	(108)	21,160
Freddie Mac	12,966	26	(14)	12,954
Total	$ 53,397	$ 263	$ (122)	$ 53,256

The carrying amount, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows (in thousands):

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 129	$ 4	$	$ 133
Freddie Mac	89	5		94
Ginnie Mae	42	2		44
Collateralized mortgage obligations (residential):				
Fannie Mae	515	16		531
Freddie Mac	211	2		213
Total	$ 986	$ 29	$	$ 1,015
June 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 133	$ 3	$	$ 136
Freddie Mac	92	6		98
Ginnie Mae	44	2		46

Collateralized mortgage obligations (residential):				
Fannie Mae	596	17		613
Freddie Mac	332	4		336
Total	$ 1,197	$ 32	$	$ 1,229

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There were no sales of securities during the three months ended September 30, 2012 and September 30, 2011.

All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at September 30, 2012. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties. There were no mortgage-backed securities called prior to the maturity date during the three month ended September 30, 2012.

Securities with unrealized losses at September 30, 2012 and June 30, 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2012						
Description of Securities						
Collateralized mortgage obligations (residential)	$ 1,354	$ (18)	$ 5,421	$ (61)	$ 6,775	$ (79)
Total temporarily impaired	$ 1,354	$ (18)	$ 5,421	$ (61)	$ 6,775	$ (79)
June 30, 2012						
Description of Securities						
Collateralized mortgage obligations (residential)	$ 18,390	$ (84)	$ 3,026	$ (38)	$ 21,416	$ (122)
Total temporarily impaired	$ 18,390	$ (84)	$ 3,026	$ (38)	$ 21,416	$ (122)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company does not have the intent to sell these securities and it is not more likely than not that it will be required to sell the securities before their anticipated recovery. In analyzing an issuer s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

At September 30, 2012, three debt securities had an aggregate unrealized loss of 0.2% of the Company s amortized cost basis. At June 30, 2012, six debt securities had an unrealized loss of 0.2% of the Company s amortized cost basis. The unrealized losses relate principally to the general change in interest rates and liquidity, and not credit quality, that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management has the intent and ability to hold debt securities until recovery, which may be maturity, and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, no declines in fair value are deemed to be other-than-temporary as of September 30, 2012 and June 30, 2012.

There were no investments in any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

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Note 5 Loans

The composition of loans consists of the following (in thousands):

	September 30, 2012	June 30, 2012
Real Estate:		
One-to-four family residential	$ 367,270	$ 371,251
Multi-family residential	270,748	283,553
Commercial real estate	81,414	86,964
	719,432	741,768
Consumer:		
Automobile	18,453	17,349
Home equity	688	808
Other consumer loans, primarily secured	9,854	10,722
	28,995	28,879
Loans held for sale	5,739	
Total loans	754,166	770,647
Deferred net loan origination costs	563	615
Net premium on purchased loans	859	957
Allowance for loan losses	(6,392)	(7,502)
	$ 749,196	$ 764,717

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The following is an analysis of the changes in the allowance for loan losses (in thousands):

	Allowance for loan losses for the Three months ended September 30, 2012						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 4,692	$ 1,519	$ 1,131	$ 62	$ 63	$ 35	$ 7,502
Provision for loan losses	964	(238)	68	40	19	(3)	850
Recoveries	41			7		1	49
Loans charged-off	(1,176)	(224)	(527)	(21)	(56)	(5)	(2,009)
Balance, end of period	$ 4,521	$ 1,057	$ 672	$ 88	$ 26	$ 28	$ 6,392

	Allowance for loan losses for the Three months ended September 30, 2011						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 6,365	$ 2,654	$ 2,254	$ 59	$ 13	$ 22	$ 11,367
Provision for loan losses	321	335	(637)	(19)			
Recoveries	102			23		15	140
Loans charged-off	(396)	(223)				(14)	(633)
Balance, end of period	$ 6,392	$ 2,766	$ 1,617	$ 63	$ 13	$ 23	$ 10,874

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2012 and June 30, 2012 (in thousands):

September 30, 2012	**One-to-four family**	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 2,202	$	$	$ 27	$	$ 2	$ 2,231
Collectively evaluated for impairment	2,319	1,057	672	61	26	26	4,161
Total ending allowance balance	$ 4,521	$ 1,057	$ 672	$ 88	$ 26	$ 28	$ 6,392

	One-to-four family	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Loans:					&		