Magyar Bancorp, Inc.
Form 10-Q
February 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2010

Commission File Number	000-51726

Magyar Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

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

(732) 342-7600
(Issuer's Telephone Number including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Class	Outstanding at February 1, 2011
Common Stock, $0.01 Par Value	5,783,131

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Data)

	December 31, 2010 (Unaudited)	September 30, 2010
Assets		
Cash	$ 1,416	$ 1,126
Interest earning deposits with banks	5,199	19,960
Total cash and cash equivalents	6,615	21,086
Investment securities - available for sale, at fair value	28,678	14,187
Investment securities - held to maturity, at amortized cost (fair value of $42,970 and $45,398 at December 31, 2010 and September 30, 2010, respectively)	42,752	44,479
Federal Home Loan Bank of New York stock, at cost	2,978	2,775
Loans receivable, net of allowance for loan losses of $4,287 and $4,766 at December 31, 2010 and September 30, 2010, respectively	393,975	403,886
Bank owned life insurance	9,396	9,306
Accrued interest receivable	1,820	1,950
Premises and equipment, net	19,938	20,142
Other real estate owned	12,966	12,655
Other assets	7,351	7,483
Total assets	$ 526,469	$ 537,949
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 411,503	$ 427,932
Escrowed funds	1,086	1,555
Federal Home Loan Bank of New York advances	50,291	45,769
Securities sold under agreements to repurchase	15,000	15,000
Accrued interest payable	407	418
Accounts payable and other liabilities	4,076	3,098
Total liabilities	482,363	493,772
Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	-	-
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,783,131 outstanding	59	59
Additional paid-in capital	26,480	26,396

Treasury stock: 140,611 shares, at cost		(1,704)		(1,704)
Unearned Employee Stock Ownership Plan shares		(1,312)		(1,342)
Retained earnings		21,427		21,300
Accumulated other comprehensive loss		(844)		(532)
Total stockholders' equity		44,106		44,177
Total liabilities and stockholders' equity	$	526,469	$	537,949

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income
(In Thousands, Except Per Share Data)

	For the Three Months Ended December 31,	
	2010	2009
	(Unaudited)	
Interest and dividend income		
Loans, including fees	$ 5,148	$ 5,799
Investment securities		
Taxable	502	695
Tax-exempt	1	2
Federal Home Loan Bank of New York stock	47	45
Total interest and dividend income	5,698	6,541
Interest expense		
Deposits	1,416	1,817
Borrowings	610	717
Total interest expense	2,026	2,534
Net interest and dividend income	3,672	4,007
Provision for loan losses	358	400
Net interest and dividend income after provision for loan losses	3,314	3,607
Other income		
Service charges	341	242
Other operating income	112	118
Gains on sales of loans	449	76
Gains on sales of investment securities	-	79
Net losses on write-downs and sales of other real estate owned	(135)	-
Total other income	767	515
Other expenses		
Compensation and employee benefits	1,870	2,719
Occupancy expenses	666	622
Advertising	53	43
Professional fees	247	227
Service fees	145	145
REO expenses	123	45
FDIC deposit insurance premiums	349	267

Other expenses		465		356
Total other expenses		3,918		4,424
Income (loss) before income tax expense (benefit)		163		(302)
Income tax expense (benefit)		36		(323)
Net income	$	127	$	21
Net income per share-basic and diluted	$	0.022	$	0.004

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
For the Three Months Ended December 31, 2010
(In Thousands, Except for Share Amounts)
(Unaudited)

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2010	5,783,131	$ 59	$ 26,396	$ (1,704)	$ (1,342)	$ 21,300	$ (532)	$ 44,177
Comprehensive loss:								
Net income	-	-	-	-	-	127	-	127
Unrealized loss on securities available-for-sale, net of tax benefit of $153	-	-	-	-	-	-	(268)	(268)
Unrealized loss on derivatives, net of tax benefit of $29	-	-	-	-	-	-	(44)	(44)
Total comprehensive loss								(185)
ESOP shares allocated	-	-	(16)	-	30	-	-	14
Stock-based compensation expense	-	-	100	-	-	-	-	100
Balance, December 31, 2010	5,783,131	$ 59	$ 26,480	$ (1,704)	$ (1,312)	$ 21,427	$ (844)	$ 44,106

The accompanying notes are an integral part of this statement.

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MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(In Thousands)

	For the Three Months Ended December 31, 2010	2009
	(Unaudited)	
Operating activities		
Net income	$ 127	$ 21
Adjustment to reconcile net income to net cash provided (used)		
by operating activities		
Depreciation expense	247	279
Premium amortization on investment securities, net	74	44
Proceeds from the sales of loans	7,613	1,875
Provision for loan losses	358	400
Provision for loss on other real estate owned	292	-
Gains on sale of loans	(449)	(76)
Gains on sales of investment securities	-	(79)
Gains on sales of other real estate owned	(157)	-
ESOP compensation expense	14	10
Stock-based compensation expense	100	53
Decrease in accrued interest receivable	130	57
Increase in surrender value bank owned life insurance	(90)	(114)
Decrease (increase) in other assets	240	(3,857)
Decrease in accrued interest payable	(11)	(82)
Decrease (increase) in accounts payable and other liabilities	978	(153)
Net cash provided (used) by operating activities	9,466	(1,622)
Investing activities		
Net decrease (increase) in loans receivable	1,808	(1,592)
Purchases of investment securities held to maturity	(5,753)	(3,069)
Purchases of investment securities available for sale	(16,109)	-
Sales of investment securities available for sale	-	3,285
Principal repayments on investment securities held to maturity	7,442	5,257
Principal repayments on investment securities available for sale	1,161	666
Purchases of premises and equipment	(43)	(53)
Investment in other real estate owned	(406)	(81)
Proceeds from the sale of other real estate owned	542	246
(Purchase) redemption of Federal Home Loan Bank stock	(203)	13
Net cash (used) provided by investing activities	(11,561)	4,672
Financing activities		
Net decrease in deposits	(16,429)	(6,629)
Stock compensation tax benefit	-	-

Net decrease in escrowed funds		(469)		(41)
Repayments of long-term advances		(978)		(273)
Net change in short-term advances		5,500		-
Net cash used by financing activities		(12,376)		(6,943)
Net decrease in cash and cash equivalents		(14,471)		(3,893)
Cash and cash equivalents, beginning of period		21,086		7,921
Cash and cash equivalents, end of period	$	6,615	$	4,028
Supplemental disclosures of cash flow information				
Cash paid for				
Interest	$	2,037	$	2,615
Income taxes	$	-	$	52
Non-cash investing activities				
Real estate acquired in full satisfaction of loans in foreclosure	$	581	$	3,579

The accompanying notes are an integral part of these statements.

MAGYAR BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

NOTE A – BASIS OF PRESENTATION

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

Operating results for the three months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. The September 30, 2010 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

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

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2010 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In connection with the preparation of quarterly and annual reports in accordance with the Securities and Exchange Commission’s (SEC) Securities Exchange Act of 1934, SEC Staff Accounting Bulletin Topic 11.M requires the disclosure of the impact that recently issued accounting standards will have on financial statements when they are adopted in the future.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. This Update amends the Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140. The amendments in this Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Update amends the Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company's consolidated financial statements.

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The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, in an effort to help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The amendments require disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The portions of the ASU that were not delayed by ASU 2011-01 (see below) did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 to temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

NOTE C - CONTINGENCIES

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

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NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three months ended December 31, 2010 and 2009 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three months ended December 31, 2010 and the three months ended December 31, 2009. The following table shows the Company's earnings per share for the periods presented:

	For the Three Months Ended December 31,					
	2010			2009		
	Income	Weighted average shares	Per share Amount	Income	Weighted average shares	Per share Amount
	(In thousands, except per share data)					
Basic EPS						
Net income available to common shareholders	$ 127	5,795	$ 0.022	$ 21	5,779	$ 0.004
Effect of dilutive securities						
Options and grants	-	-	-	-	-	-
Diluted EPS						
Net income available to common shareholders plus assumed conversion	$ 127	5,795	$ 0.022	$ 21	5,779	$ 0.004

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 and 30,212 shares of restricted shares at a weighted average price of $11.45 were outstanding and not included in the computation of diluted earnings per share for the three months ended December 31, 2010 because the grant (or option strike) price was greater than the average market price of the common shares during the periods. Options to purchase 188,276 shares of common stock at an average price of $14.61 and 34,008 restricted shares at a weighted average price of $14.55 were outstanding and not included in the computation of diluted earnings per share for the three months ended December 31, 2009 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

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

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

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

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

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the three months ended December 31, 2010:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2010	188,276	$ 14.61		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Balance at December 31, 2010	188,276	$ 14.61	6.2 years	$ -
Exercisable at December 31, 2010	120,846	$ 14.61	6.2 years	$ -

The following is a summary of the Company's non-vested stock awards as of December 31, 2010 and changes during the three months ended December 31, 2010:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2010	45,390	$ 11.45
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at December 31, 2010	45,390	$ 11.45

Stock option and stock award expenses included with compensation expense were $40,000 and $60,000, respectively, for the three months ended December 31, 2010.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through December 31, 2010, the Company had repurchased a total of 66,970 shares of its common stock at an average cost of $9.39 per share under this program. No shares have been repurchased during the three months ended December 31, 2010. Under the stock repurchase program, 62,954 shares of the 129,924 shares authorized remained available for repurchase as of December 31, 2010. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meets the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2011) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's stock.

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

At December 31, 2010, shares allocated to participants totaled 76,904. Unallocated ESOP shares held in suspense totaled 140,959 at December 31, 2010 and had a fair market value of $563,836. The Company's contribution expense for the ESOP was $14,000 and $10,000 for the three months ended December 31, 2010 and 2009, respectively.

NOTE F - COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended December 31,					
	2010			2009		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding losses arising during period on:						
Available-for-sale investments	$ (421)	$ 153	$ (268)	$ (291)	$ 109	$ (182)
Less reclassification adjustment for gains realized in net income	-	-	-	(79)	32	(47)
Interest rate derivatives	(73)	29	(44)	(78)	31	(47)
Other comprehensive loss, net	$ (494)	$ 182	$ (312)	$ (448)	$ 172	$ (276)

NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

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

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

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

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Securities available-for-sale

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

Derivative financial instruments

The Company uses interest rate floors to manage its interest rate risk. The interest rate floors have been designated as cash flow hedging instruments. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

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

	Fair Value at December 31, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available-for-sale	$ 28,678	$ -	$ 28,678	$ -

	Fair Value at September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available-for-sale	$ 14,187	$ -	$ 14,187	$ -
Derivatives	51	-	51	-
	$ 14,238	$ -	$ 14,238	$ -

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

Mortgage Servicing Rights, net

Mortgage Servicing Rights (MSRs) are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is determined through a calculation of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements and, as such, are classified as Level 3.

Impaired Loans

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

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

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

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2010.

	Fair Value at December 31, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 3,845	$ -	$ -	$ 3,845
Other real estate owned	2,610	-	-	2,610
	$ 6,455	$ -	$ -	$ 6,455

	Fair Value at September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 16,193	$ -	$ -	$ 16,193

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

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

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

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

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

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

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

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

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

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

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2010 and September 30, 2010 were as follows:

	December 31, 2010		September 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in thousands)			
Financial assets				
Investment securities	$ 71,430	$ 71,648	$ 58,666	$ 59,585
Loans, net of allowance for loan losses	393,975	395,934	403,886	408,790
Bank owned insurance policies	9,396	9,396	9,306	9,306
Financial liabilities				
Deposits				
Demand, NOW and money market savings	$ 229,702	$ 229,702	$ 239,917	$ 239,917
Certificates of deposit	181,801	184,718	188,015	191,636
Total deposits	$ 411,503	$ 414,420	$ 427,932	$ 431,553
Borrowings	$ 65,291	$ 70,017	$ 60,769	$ 64,068
Interest rate derivatives	$ -	$ -	$ 51	$ 51

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

Cash and cash equivalents, accrued interest receivable and accrued interest payable are not presented in the above table as the carrying amounts shown in the consolidated balance sheet equal fair value.

NOTE H - INVESTMENT SECURITIES

The following table is an analysis of the amortized cost and fair values of securities available for sale at December 31, 2010 and September 30, 2010:

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	At December 31, 2010				At September 30, 2010.			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Securities available for sale:								
Obligations of U.S. government agencies:								
Mortgage backed securities - residential	$ 3,714	$ 40	$ (27)	$ 3,727	$ 3,904	$ -	$ (26)	$ 3,878
Obligations of U.S. government-sponsored enterprises:								
Mortgage-backed securities-residential	14,440	97	(321)	14,216	2,833	107	-	2,940
Mortgage backed securities-commercial	4,235	-	(41)	4,194	4,274	-	(4)	4,270
Debt securities	5,000	-	(167)	4,833	1,001	1	-	1,002
Private label mortgage-backed securities-residential	1,897	-	(189)	1,708	2,362	-	(265)	2,097
Total securities available for sale	$ 29,286	$ 137	$ (745)	$ 28,678	$ 14,374	$ 108	$ (295)	$ 14,187

The maturities of the debt securities and mortgage-backed securities available-for-sale at December 31, 2010 are summarized in the following table:

	At December 31, 2010	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ -	$ -
Due after 1 but within 5 years	1,000	1,000
Due after 5 but within 10 years	4,000	3,833
Due after 10 years	-	-
Total debt securities	5,000	4,833
Mortgage-backed securities:		
Residential	20,051	19,651
Commercial	4,235	4,194
Total	$ 29,286	$ 28,678

The following table is an analysis of the amortized cost and fair values of securities held to maturity at December 31, 2010 and September 30, 2010:

	At December 31, 2010				At September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Securities held to maturity:								
Obligations of U.S. government agencies:								
Mortgage-backed securities-residential	$ 17,179	$ 199	$ (80)	$ 17,298	$ 18,407	$ 401	$ -	$ 18,808
Mortgage-backed securities-commercial	1,706	17	-	1,723	1,725	22	-	1,747
Obligations of U.S. government-sponsored enterprises:								
Mortgage backed securities-residential	17,475	244	(74)	17,645	17,880	425	-	18,305
Mortgage backed securities - commercial	-	-	-	-	-	-	-	-
Debt securities	4,500	9	(108)	4,401	4,499	35	-	4,534
Private label mortgage-backed securities-residential	1,795	87	(79)	1,803	1,871	101	(70)	1,902
Obligations of state and political subdivisions	97	3	-	100	97	5	-	102
Total securities held to maturity	$ 42,752	$ 559	$ (341)	$ 42,970	$ 44,479	$ 989	$ (70)	$ 45,398

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The maturities of the debt securities and the mortgage backed securities held to maturity at December 31, 2010 are summarized in the following table:

	At December 31, 2010	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ -	$ -
Due after 1 but within 5 years	97	100
Due after 5 but within 10 years	3,500	3,392
Due after 10 years	1,000	1,009
Total debt securities	4,597	4,501
Mortgage-backed securities:		
Residential	36,449	36,746
Commercial	1,706	1,723
Total	$ 42,752	$ 42,970

NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

The Company recognizes credit-related other-than-temporary impairment on debt securities in earnings while noncredit-related other-than-temporary impairment on debt securities not expected to be sold are recognized in other comprehensive income (“OCI”).

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by prolonged recession in the U.S. economy, changes in real estate values and interest deferrals.

Investment securities with fair values less than their amortized cost contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of December 31, 2010.

The following tables present the gross unrealized losses and fair value at December 31, 2010 and September 30, 2010 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

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	December 31, 2010						
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
Obligations of U.S. government agencies:							
Mortgage-backed securities-residential	3	$ 5,384	$ (107)	$ -	$ -	$ 5,384	$ (107)
Obligations of U.S. government-sponsored enterprises:							
Mortgage-backed securities - residential	11	17,301	(395)	-	-	17,301	(395)
Mortgage backed securities - commercial	1	4,194	(41)	-	-	4,194	(41)
Debt securities	6	8,225	(275)	-	-	8,225	(275)
Private label mortgage-backed securities:							
Residential	3	-	-	2,553	(268)	2,553	(268)
Total	24	$ 35,104	$ (818)	$ 2,553	$ (268)	$ 37,657	$ (1,086)

	September 30, 2010						
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
Obligations of U.S. government agencies:							
Mortgage-backed securities-residential	2	$ 3,878	$ (26)	$ -	$ -	$ 3,878	$ (26)
Obligations of U.S. government-sponsored enterprises:							
Mortgage backed securities - commercial	1	4,270	(4)	-	-	4,270	(4)
Private label mortgage-backed securities:							
Residential	3	-	-	2,964	(335)	2,964	(335)
Total	6	$ 8,148	$ (30)	$ 2,964	$ (335)	$ 11,112	$ (365)

NOTE J – LOANS RECEIVABLE, NET AND RELATED ALLOWANCE FOR LOAN LOSSES

Loans receivable, net were comprised of the following:

	December 31, 2010	September 30, 2010
	(Dollars in thousands)	
One-to four-family residential	$ 159,148	$ 165,462
Commercial real estate	123,155	116,222
Construction	44,235	57,086
Home equity lines of credit	22,528	22,823
Commercial business	35,832	33,676
Other	13,284	13,277
Total loans receivable	398,182	408,546
Net deferred loan costs	80	106
Allowance for loan losses	(4,287)	(4,766)
Total loans receivable, net	$ 393,975	$ 403,886

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial loan segment is further disaggregated into three classes. Commercial real estate loans include loans secured by multifamily structures, owner-occupied commercial structures, and non-owner occupied nonresidential properties. The construction loan segment consists primarily of developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures and to a lesser extent one-to-four family residential construction loans made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Construction loans to developers and investors have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan. The commercial business loan segment consists of loans made for the purpose of financing the activities of commercial customers and consists primarily of revolving lines of credit. The consumer loan segment consists primarily of stock-secured installment loans, but also includes unsecured personal loans and overdraft lines of credit connected with customer deposit accounts.

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Management evaluates individual loans in all segments for possible impairment if the loan either is in nonaccrual status, or is risk rated Substandard and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the recorded investment in the loan is compared to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral securing the loan, less anticipated selling and disposition costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. If there is a shortfall between the fair value of the loan and the recorded investment in the loan, the Company charges the difference to the allowance for loan loss as a charge-off and carries the impaired loan on its books at fair value. It is the Company's policy to evaluate impaired loans on an annual basis to ensure the recorded investment in a loan does not exceed its fair value.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and charged-off and those for which a specific allowance was not necessary for the period presented:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
December 31, 2010					
One-to four-family residential	$-	$-	$2,320	$2,320	$2,375
Commercial real estate	-	-	8,228	8,228	8,773
Construction	-	-	12,949	12,949	19,181
Home equity lines of credit	-	-	1,303	1,303	1,397
Commercial business	-	-			