Magyar Bancorp, Inc.
Form 10-Q
May 13, 2016

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 March 31, 2016

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(732) 342-7600

(Issuer's Telephone Number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

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

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 May 1, 2016
Common Stock, $0.01 Par Value	5,819,494

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

PART I. FINANCIAL INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	March 31, 2016 (Unaudited)	September 30, 2015
Assets		
Cash	$ 1,500	$ 1,081
Interest earning deposits with banks	19,428	17,027
Total cash and cash equivalents	20,928	18,108
Investment securities - available for sale, at fair value	8,106	6,064
Investment securities - held to maturity, at amortized cost (fair value of $59,573 and $53,248 at March 31, 2016 and September 30, 2015, respectively)	58,886	52,614
Federal Home Loan Bank of New York stock, at cost	1,923	2,025
Loans receivable, net of allowance for loan losses of $2,890 and $2,886 at March 31, 2016 and September 30, 2015, respectively	421,080	420,596
Bank owned life insurance	11,111	10,962
Accrued interest receivable	1,748	1,703
Premises and equipment, net	17,586	17,818
Other real estate owned ("OREO")	16,296	16,192
Other assets	4,654	4,483
Total assets	$ 562,318	$ 550,565
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 479,491	$ 466,269
Escrowed funds	1,489	1,301
Federal Home Loan Bank of New York advances	29,334	31,594
Accrued interest payable	91	102
Accounts payable and other liabilities	4,710	4,630
Total liabilities	515,115	503,896

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; 5,819,494 shares outstanding at March 31, 2016 and September 30, 2015	59	59
Additional paid-in capital	26,276	26,275
Treasury stock: 104,248 shares at March 31, 2016 and September 30, 2015, at cost	(1,166)	(1,166)
Unearned Employee Stock Ownership Plan shares	(689)	(752)
Retained earnings	23,739	23,252
Accumulated other comprehensive loss	(1,016)	(999)
Total stockholders' equity	47,203	46,669
Total liabilities and stockholders' equity	$ 562,318	$ 550,565

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

1

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,517	$4,432	$9,104	$8,883
Investment securities				
Taxable	426	331	818	661
Federal Home Loan Bank of New York stock	24	20	48	44
Total interest and dividend income	4,967	4,783	9,970	9,588
Interest expense				
Deposits	695	596	1,396	1,198
Borrowings	171	170	362	381
Total interest expense	866	766	1,758	1,579
Net interest and dividend income	4,101	4,017	8,212	8,009
Provision for loan losses	291	170	469	590
Net interest and dividend income after provision for loan losses	3,810	3,847	7,743	7,419
Other income				
Service charges	233	240	542	440
Income on bank owned life insurance	76	76	148	153
Other operating income	37	32	67	55
Gains on sales of loans	72	93	243	326
Gains on sales of investment securities	24	12	63	42
Total other income	442	453	1,063	1,016
Other expenses				
Compensation and employee benefits	2,132	2,057	4,195	4,060
Occupancy expenses	697	733	1,334	1,436
Professional fees	264	260	500	553
Data processing expenses	123	148	244	293

OREO expenses	121	130	504	241
FDIC deposit insurance premiums	188	178	377	358
Loan servicing expenses	55	79	115	157
Insurance expense	64	56	122	114
Other expenses	327	460	633	770
Total other expenses	3,971	4,101	8,024	7,982
Income before income tax expense	281	199	782	453
Income tax expense	103	52	295	124
Net income	$178	$147	$487	$329
Net income per share-basic and diluted	$0.03	$0.03	$0.08	$0.06

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

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited)			
Net income	$178	$147	$ 487	$ 329
Other comprehensive (loss) income				
Net unrealized gain on securities available for sale	207	87	37	178
Less: reclassification for realized gains on sales of securities available for sale	(24)	(12)	(63)	(42)
Other comprehensive (loss) income, before tax	183	75	(26)	136
Deferred income tax effect	(66)	(28)	9	(50)
Total other comprehensive (loss) income	117	47	(17)	86
Total comprehensive income	$295	$194	$ 470	$ 415

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

3

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Six Months Ended March 31, 2016 and 2015

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding (Unaudited)	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2015	5,819,494	$ 59	$ 26,275	$ (1,166)	$ (752)	$ 23,252	$ (999)	$ 46,669
Net income	—	—	—	—	—	487	—	487
Other comprehensive loss	—	—	—	—	—	—	(17)	(17)
ESOP shares allocated	—	—	(2)	—	63	—	—	61
Stock-based compensation expense	—	—	3	—	—	—	—	3
Balance, March 31, 2016	5,819,494	$ 59	$ 26,276	$ (1,166)	$ (689)	$ 23,739	$ (1,016)	$ 47,203

	Common Stock Shares Outstanding (Unaudited)	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2014	5,815,444	$ 59	$ 26,295	$ (1,211)	$ (877)	$ 22,382	$ (716)	$ 45,932
Net income	—	—	—	—	—	329	—	329
Other comprehensive income	—	—	—	—	—	—	86	86
ESOP shares allocated	—	—	(9)	—	62	—	—	53
Stock-based compensation expense	—	—	9	—	—	—	—	9
Balance, March 31, 2015	5,815,444	$ 59	$ 26,295	$ (1,211)	$ (815)	$ 22,711	$ (630)	$ 46,409

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

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Six Months Ended March 31, 2016 (Unaudited)	2015
Operating activities		
Net income	$ 487	$ 329
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	379	446
Premium amortization on investment securities, net	96	146
Provision for loan losses	468	590
Provision for loss on other real estate owned	270	25
Proceeds from the sales of loans	3,040	4,441
Gains on sale of loans	(243)	(326)
Gains on sales of investment securities	(63)	(42)
Losses (gains) on the sales of other real estate owned	9	(43)
ESOP compensation expense	63	53
Stock-based compensation expense	4	9
Deferred income tax expense	173	195
Increase in accrued interest receivable	(45)	(26)
Increase in surrender value bank owned life insurance	(148)	(153)
Increase in other assets	(335)	(80)
Decrease in accrued interest payable	(11)	(36)
Increase (decrease) in accounts payable and other liabilities	80	(757)
Net cash provided by operating activities	4,224	4,771
Investing activities		
Net decrease (increase) in loans receivable	2,628	(11,198)
Purchases of loans receivable	(7,098)	(674)
Purchases of investment securities held to maturity	(10,565)	(4,132)
Purchases of investment securities available for sale	(6,482)	—
Sales of investment securities available for sale	4,098	5,421
Principal repayments on investment securities held to maturity	4,213	2,467
Principal repayments on investment securities available for sale	362	453
Purchases of premises and equipment	(147)	(65)
Investment in other real estate owned	(112)	(283)
Proceeds from the sale of other real estate owned	447	4,778
Redemption (purchase) of Federal Home Loan Bank stock	102	(32)
Net cash used by investing activities	(12,554)	(3,265)
Financing activities		

Net increase in deposits	13,222	14,457
Net increase in escrowed funds	188	106
Proceeds from long-term advances	—	5,701
Repayments of long-term advances	(2,260)	(5,000)
Repayments of securities sold under agreements to repurchase	—	(5,000)
Net cash provided by financing activities	11,150	10,264
Net increase in cash and cash equivalents	2,820	11,770
Cash and cash equivalents, beginning of period	18,108	10,258
Cash and cash equivalents, end of period	$ 20,928	$ 22,028
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 1,769	$ 1,615
Income taxes	$ 4	$ 14
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 718	$ 2,666

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

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

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

Operating results for the three and six months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. The September 30, 2015 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 consolidated 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 consolidated 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 March 31, 2016 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (*Topic 606*), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. The new guidance will be effective for public companies for periods beginning after December 15, 2017. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for years beginning after December 15, 2018 for public companies. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

Table of Contents

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. This ASU was issued as part of FASB's Simplification Initiative. The areas for simplification in this Update include income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows for share-based payment transactions. For public companies, this ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

NOTE C - CONTINGENCIES

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

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and six months ended March 31, 2016 and 2015 were calculated by dividing net income by the weighted-average number of shares outstanding for the period considering the effect of diluted equity options and stock awards for the diluted earnings per share calculations.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2016	2015	2016	2015
	(In thousands except for per share data)			
Income applicable to common shares	$ 178	$ 147	$ 487	$ 329
Weighted average number of common shares outstanding - basic	5,820	5,819	5,820	5,818
Stock options and restricted stock	—	—	—	—
Weighted average number of common shares and common share equivalents - diluted	5,820	5,819	5,820	5,818
Basic earnings per share	$ 0.03	$ 0.03	$ 0.08	$ 0.06
Diluted earnings per share	$ 0.03	$ 0.03	$ 0.08	$ 0.06

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2016 because the grant (or option strike) price was greater than the average market price of the common shares during the period and are thus anti-dilutive. Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2015 because the grant (or option strike) price was greater than the average market price of the common shares during the period.

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.

Stock options generally vest over a five-year service period and expire ten years from issuance. 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 vesting 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.

Table of Contents

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 vesting period of the awards.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the six months ended March 31, 2016 and 2015, respectively:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2015	188,276	$ 14.61	1.4 years	$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at March 31, 2016	188,276	$ 14.61	0.9 years	$ —
Exercisable at March 31, 2016	188,276	$ 14.61	0.9 years	$ —

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2014	188,276	$ 14.61	2.4 years	
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at March 31, 2015	188,276	$ 14.61	1.9 years	$ —
Exercisable at March 31, 2015	188,276	$ 14.61	1.9 years	$ —

The following is a summary of the Company's non-vested restricted stock awards as of March 31, 2016 and 2015 and changes during the six months ended March 31, 2016 and 2015:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2015	1,252	$ 4.30
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at March 31, 2016	1,252	$ 4.30

8

Table of Contents

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at March 31, 2015	5,302	$ 4.41

Stock option and stock award expenses included with compensation expense were $0 and $2,688, respectively, for the six months ended March 31, 2016.

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 March 31, 2016, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the six months ended March 31, 2016 and 2015, respectively. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2016. 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 104,248 total treasury stock shares at March 31, 2016, of which 81,000 were from repurchases under this program.

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 (3.50% at January 1, 2016) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company’s stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance 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 March 31, 2016, shares allocated to participants totaled 140,881. Unallocated ESOP shares held in suspense totaled 76,982 at March 31, 2016 and had a fair market value of $760,582. The Company's contribution expense for the ESOP was $61,000 and $53,000 for the six months ended March 31, 2016 and 2015, respectively.

NOTE F – OTHER COMPREHENSIVE INCOME (LOSS)

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

Table of Contents

	Three Months Ended March 31,					
	2016			2015		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain arising during period on:						
Available-for-sale investments	$207	$ (76)	$ 131	$87	$ (33)	$ 54
Less reclassification adjustment for net realized on available-for-sale investments (a) (b)	(24)	10	(14)	(12)	5	(7)
Other comprehensive income, net	$183	$ (66)	$ 117	$75	$ (28)	$ 47

	Six Months Ended March 31,					
	2016			2015		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain arising during period on:						
Available-for-sale investments	$37	$ (16)	$ 21	$178	$ (67)	$ 111
Less reclassification adjustment for net realized on available-for-sale investments (a) (b)	(63)	25	(38)	(42)	17	(25)
Other comprehensive income, net	$(26)	$ 9	$ (17)	$136	$ (50)	$ 86

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

NOTE G – FAIR VALUE DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The 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, the Company groups its 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.

Table of Contents

The Company based its 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 the Company 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.

Securities available-for-sale

The securities 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. The securities available-for-sale portfolio consists of U.S government-sponsored mortgage-backed securities and private label mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. An independent pricing service provides the Company 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 Company's 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.

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 March 31, 2016			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 7,978	$ —	$ 7,978	$ —
Private label mortgage-backed securities-residential	128	—	128	—
Total securities available for sale	$ 8,106	$ —	$ 8,106	$ —

	Fair Value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 5,914	$ —	$ 5,914	$ —
Private label mortgage-backed securities-residential	150	—	150	—
Total securities available for sale	$ 6,064	$ —	$ 6,064	$ —

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. The Company had MSRs totaling $114,000 and $132,000 at March 31, 2016 and September 30, 2015, respectively.

Impaired Loans

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

Table of Contents

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Company'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 and anticipated selling and disposition costs. 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 March 31, 2016 and September 30, 2015

	Fair Value at March 31, 2016			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,212	$ —	$ —	$ 1,212
Other real estate owned	16,296	—	—	16,296
	$ 17,508	$ —	$ —	$ 17,508

	Fair Value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,489	$ —	$ —	$ 1,489
Other real estate owned	16,192	—	—	16,192
	$ 17,681	$ —	$ —	$ 17,681

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

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

March 31, 2016	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,212	Appraisal of collateral (1)	Appraisal adjustments (2)	-13.0% to -32.0% (-29.0%)
Other real estate owned	$ 16,296	Appraisal of collateral (1)	Liquidation expenses (2)	-3.9% to -37.0% (-11.5%)

12

Table of Contents

September 30, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,489	Appraisal of collateral (1)	Appraisal adjustments (2)	-16.0% to -40.0% (-8.0%)
Other real estate owned	$ 16,192	Appraisal of collateral (1)	Liquidation expenses (2)	0.0% to -41.2% (-15.1%)

(1) Fair value is generally determined through independent appraisals for the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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 held to maturity securities are obtained from an independent nationally recognized pricing service. An independent pricing service provides the Company 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 Company’s 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.

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

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of March 31, 2016 and September 30, 2015. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products being payable on demand and having no stated maturity.

Table of Contents

	Carrying Value	Fair Value	Fair Value Measurement Placement (Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
March 31, 2016					
Financial instruments - assets					
Investment securities held to maturity	$58,886	$59,573	$ —	$ 59,573	$ —
Loans	421,080	426,310	—	—	426,310
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	133,666	134,974	—	134,974	—
Borrowings	29,334	29,957	—	29,957	—
September 30, 2015					
Financial instruments - assets					
Investment securities held to maturity	$52,614	$53,248	$ —	$ 53,248	$ —
Loans	420,596	425,890	—	—	425,890
Financial instruments - liabilities					
Certificates of deposit including retirement certificates	143,108	144,150	—	144,150	—
Borrowings	31,594	32,231	—	32,231	—

There were no transfers between fair value measurement placements for the three and six months ended March 31, 2016.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at March 31, 2016 and September 30, 2015:

March 31, 2016