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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

OR

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

For the transition period from to

Commission File Number: 001-34979

KAISER FEDERAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(800) 524-2274

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

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

Common Stock, $.01 par value 9,050,261 shares outstanding as of May 7, 2012.

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	March 31, 2012	June 30, 2011
ASSETS		
Cash and due from banks	$ 8,992	$ 9,214
Federal funds sold	129,760	80,440
Total cash and cash equivalents	138,752	89,654
Interest earning time deposits in other financial institutions	0	11,669
Securities available-for-sale, at fair value	57,986	16,038
Securities held-to-maturity, fair value of $1,516 and $2,299 at March 31, 2012 and June 30, 2011, respectively	1,475	2,202
Federal Home Loan Bank (FHLB) stock, at cost	8,968	10,334
Loans receivable, net of allowance for loan losses of $7,928 and $11,367 at March 31, 2012 and June 30, 2011, respectively	707,780	696,646
Accrued interest receivable	2,739	2,851
Premises and equipment, net	2,784	2,334
Goodwill	3,950	3,950
Bank-owned life insurance	13,217	12,856
Real estate owned (REO)	725	828
Other assets	6,589	7,077
Total assets	$ 944,965	$ 856,439
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 73,839	$ 57,512
Interest bearing	609,047	577,197
Total deposits	682,886	634,709
Federal Home Loan Bank advances, short-term	40,000	40,000
Federal Home Loan Bank advances, long-term	60,000	20,000
Accrued expenses and other liabilities	5,943	4,331
Total liabilities	788,829	699,040
Commitments and contingent liabilities		
Stockholders equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding none	0	0
Common stock, $0.01 par value; 100,000,000 authorized; March 31, 2012 9,172,743 shares issued	92	96

June 30, 2011 9,574,960 shares issued		
Additional paid-in capital	95,028	100,599
Retained earnings	65,853	61,832
Accumulated other comprehensive loss, net of tax	(41)	(21)
Unearned employee stock ownership plan (ESOP) shares	(4,796)	(5,107)
Total stockholders equity	156,136	157,399
Total liabilities and stockholders equity	$ 944,965	$ 856,439

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

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Interest income				
Interest and fees on loans	$ 9,652	$ 10,568	$ 29,835	$ 32,675
Interest on securities, taxable	187	43	521	163
Federal Home Loan Bank dividends	12	8	26	34
Other interest	73	76	235	213
Total interest income	9,924	10,695	30,617	33,085
Interest expense				
Interest on deposits	1,847	2,192	5,927	7,057
Interest on borrowings	713	967	2,227	3,807
Total interest expense	2,560	3,159	8,154	10,864
Net interest income	7,364	7,536	22,463	22,221
Provision for loan losses	0	0	0	950
Net interest income after provision for loan losses	7,364	7,536	22,463	21,271
Noninterest income				
Service charges and fees	362	391	1,253	1,304
ATM fees and charges	576	517	1,649	1,530
Referral commissions	77	70	231	221
(Loss) gain on equity investment	(45)	51	(185)	(69)
Bank-owned life insurance	117	119	361	366
Other noninterest income	7	10	16	19
Total noninterest income	1,094	1,158	3,325	3,371
Noninterest expense				
Salaries and benefits	2,942	2,426	8,401	6,945
Occupancy and equipment	647	627	1,995	1,808
ATM expense	492	454	1,529	1,356
Advertising and promotional	92	84	283	287
Professional services	615	508	1,582	1,125
Federal deposit insurance premiums	147	232	413	767
Postage	63	67	194	206
Telephone	211	174	604	524
REO and foreclosure expense	162	32	138	287
Other operating expense	468	399	1,440	1,224

Total noninterest expense	5,839	5,003	16,579	14,529
Income before income tax expense	2,619	3,691	9,209	10,113
Income tax expense	972	1,430	3,461	3,818
Net income	$ 1,647	$ 2,261	$ 5,748	$ 6,295
Earnings per common share:				
Basic	$ 0.18	$ 0.25	$ 0.63	$ 0.68
Diluted	$ 0.18	$ 0.25	$ 0.63	$ 0.68

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

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Net income	$ 1,647	$ 2,261	$ 5,748	$ 6,295
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale	143	(19)	(35)	(10)
Income tax effect	(59)	8	15	4
Other comprehensive income (loss), net of tax	84	(11)	(20)	(6)
Comprehensive income	$ 1,731	$ 2,250	$ 5,728	$ 6,289

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

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders Equity

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock		Additional Paid-in		Accumulated Other		
	Shares	Amount	Capital	Retained Earnings	Comprehensive Loss, net	Unearned ESOP Shares	Total
Balance July 1, 2011	9,574,960	$ 96	$ 100,599	$ 61,832	$ (21)	$ (5,107)	$ 157,399
Net income for the nine months ended March 31, 2012	0	0	0	5,748	0	0	5,748
Other comprehensive loss unrealized loss on securities, net of tax of ($15)	0	0	0	0	(20)	0	(20)
Dividends declared ($0.19 per share)	0	0	0	(1,727)	0	0	(1,727)
Repurchase of common stock	(435,075)	(4)	(5,883)	0	0	0	(5,887)
Stock options earned	0	0	45	0	0	0	45
Stock options exercised	7,194	0	78	0	0	0	78
Allocation of stock awards	0	0	112	0	0	0	112
Issuance of stock awards	33,664	0	0	0	0	0	0
Forfeiture of stock awards	(8,000)	0	0	0	0	0	0
Allocation of ESOP common stock	0	0	77	0	0	311	388
Balance March 31, 2012	9,172,743	$ 92	$ 95,028	$ 65,853	$ (41)	$ (4,796)	$ 156,136

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

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
OPERATING ACTIVITIES		
Net income	$ 5,748	$ 6,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (Accretion) of net premiums (discounts) on securities	467	(1)
Amortization (Accretion) of net premiums (discounts) on loan purchases	173	(20)
(Accretion) Amortization of net loan origination costs	(5)	62
Provision for loan losses	0	950
Gain on sale of REO	(55)	(21)
REO direct write-down	0	164
Depreciation and amortization	610	556
Amortization of core deposit intangible	22	35
Loss on equity investment	185	69
Increase in cash surrender value of bank-owned life insurance	(361)	(366)
Allocation of ESOP common stock	388	333
Allocation of stock awards	112	82
Stock options earned	45	61
Net change in accrued interest receivable	112	391
Net change in other assets	264	772
Net change in accrued expenses and other liabilities	1,612	348
Net cash provided by operating activities	9,317	9,710
INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(57,271)	0
Proceeds from maturities and principal repayments of available-for-sale securities	14,822	1,051
Proceeds from maturities and principal repayments of held-to-maturity securities	727	1,318
Net change in interest earning time deposits with other financial institutions	11,669	5,121
Purchases of loans	(49,409)	0
Net change in loans	36,817	52,950
Proceeds from sale of real estate owned	1,173	1,941
Proceeds from sale of loans receivable	306	0
Redemption of FHLB stock	1,366	1,382
Purchases of premises and equipment	(1,060)	(913)
Net cash (used in) provided by investing activities	(40,860)	62,850
FINANCING ACTIVITIES		
Proceeds from FHLB advances	60,000	0
Repayment of FHLB Advances	(20,000)	(52,000)
Dividends paid on common stock	(1,727)	(1,373)
Repurchase of common stock	(5,887)	0

Net change in deposits	48,177	26,160
Net proceeds from stock offering	0	59,085
Purchase of shares by ESOP pursuant to reorganization	0	(3,825)
Exercise of stock options	78	0
Net cash provided by financing activities	80,641	28,047
Net change in cash and cash equivalents	49,098	100,607
Cash and cash equivalents at beginning of period	89,654	39,560
Cash and cash equivalents at end of period	$ 138,752	$ 140,167
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$ 8,171	$ 10,877
Income taxes paid	2,174	4,250
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$ 984	$ 2,103

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

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Nature of Business and Significant Accounting Policies

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

The Company s business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis, and prior to November 19, 2010, the Company refers to K-Fed Bancorp and the Bank on a consolidated basis.

Principles of Consolidation and Basis of Presentation: The financial statements of Kaiser Federal Financial Group, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and predominant practices followed by the financial services industry. The consolidated financial statements presented in this report include the accounts of Kaiser Federal Financial Group, Inc. and its wholly-owned subsidiary, Kaiser Federal Bank. All material intercompany balances and transactions have been eliminated in consolidation. Financial information presented in this report is derived in part from the consolidated financial statements of K-Fed Bancorp and subsidiary prior to November 19, 2010. In the opinion of the Company s management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.

On November 19, 2010, the Company completed the conversion from a mutual holding company structure to a fully public stock holding company form of organization and related public offering. The Company sold a total of 6,375,000 shares of common stock in the offering at a purchase price of $10.00 per share. The offering raised capital of $59.1 million, which is net of costs of $4.7 million. Concurrent with the completion of the offering, shares of K-Fed Bancorp common stock owned by public stockholders were exchanged for 0.7194 shares of the Company s common stock. All share and per share information in this report for periods prior to the conversion has been revised to reflect the 0.7194:1 conversion ratio on shares outstanding, including shares of K-Fed Bancorp held by the former mutual holding company that were not publically traded.

The results of operations for the three months and nine months ended March 31, 2012 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2012. Certain information and note disclosures normally included in the Company s annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

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Adoption of New Accounting Standards:

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-02 *Receivable (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The ASU amended existing guidance to assist creditors in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring (TDR). The guidance does not change previous standards that a restructuring of debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider , but provides clarification on determining whether a debtor is in financial difficulty and if a concession was granted. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The adoption of this guidance did not have a material effect on the Company s results of operations or financial position.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* to clarify Topic 820, Fair Value Measurement, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs). Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity s net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in this guidance are to be applied prospectively. This guidance is effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Company s results of operations or financial position, however, it expanded the disclosure for items not carried at fair value but for which fair value is disclosed.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* ASU 2011-05 does not change what would be classified as other comprehensive income (OCI), rather, items classified as OCI will be moved to the income statement instead of the statement of stockholders equity. Under this guidance, companies will have the option to present OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, companies will be required to present each component of net income along with total net income, each component of OCI along with a total for OCI, and a total amount for comprehensive income. The FASB amended ASU 2011-05 in December 2011, with the issuance of ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. Both standards are effective for interim and annual periods beginning after December 15, 2011, and are applied retrospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements, however it changed the way the Company discloses OCI.

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Effect of Newly Issued But Not Yet Effective Accounting Standards:

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. Under the amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not (a likelihood of more than 50 percent) that its fair value is less than its carrying amount. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company s result of operations or financial position.

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Note 2 Earnings Per Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan (ESOP) shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation and had an immaterial impact on the calculation for the three and nine months ended March 31, 2012 and 2011. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	2012	2011
Basic	(Dollars in thousands, except per share data)			
Net income	$ 1,647	$ 2,261	$ 5,748	$ 6,295
Weighted average common shares outstanding	9,022,704	9,072,381	9,096,323	9,260,539
Basic earnings per share	$ 0.18	$ 0.25	$ 0.63	$ 0.68
Diluted				
Net income	$ 1,647	$ 2,261	$ 5,748	$ 6,295
Weighted average common shares outstanding	9,022,704	9,072,381	9,096,323	9,260,539
Add: Dilutive effect of stock options	9,171	0	4,603	161
Average shares and dilutive potential common shares	9,031,875	9,072,381	9,100,926	9,260,700
Diluted earnings per share	$ 0.18	$ 0.25	$ 0.63	$ 0.68

For the three and nine months ended March 31, 2012 outstanding stock options to purchase 222,590 shares, respectively were anti-dilutive and not considered in computing diluted earnings per common share. For the three and nine months ended March 31, 2011 outstanding stock options to purchase 304,515 shares, respectively were anti-dilutive and not considered in computing diluted earnings per common share. Stock options are not considered participating securities as they do not contain rights to nonforfeitable dividends.

The Recognition and Retention Plan (RRP) awards contain rights to nonforfeitable dividends and are considered participating securities. RRP shares of 39,475 are included in weighted average common shares outstanding for the three and nine months ended March 31, 2012. RRP shares of 12,230 are included in weighted average common shares outstanding for the three and nine months ended March 31, 2011.

The Company s 2011 Equity Incentive Plan (EIP) provides for the issuance of stock options, restricted stock awards and restricted stock units to directors, officers, and employees. Restricted stock awards issued under the EIP contain rights to nonforfeitable dividends and are considered participating securities. Restricted stock awards of 8,664 shares are included in the weighted average common shares outstanding for the three and nine months ended March 31, 2012.

Note 3 Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

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

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

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three and nine months ended March 31, 2012 and 2011.

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

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

As of March 31, 2012 and June 30, 2011, there were no liabilities measured at fair value.

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

		Fair Value Measurements Using		
Assets at March 31, 2012:	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 21,039	$ 0	$ 21,039	$ 0
Collateralized mortgage obligations (residential)	36,947	0	36,947	0
Total available-for-sale securities	$ 57,986	$ 0	$ 57,986	$ 0
Assets at June 30, 2011:				
Available-for-sale securities				
FHLB Bond	$ 4,999	$ 0	$ 4,999	$ 0
Mortgage-backed securities (residential)	184	0	184	0
Collateralized mortgage obligations (residential)	10,855	0	10,855	0
Total available-for-sale securities	$ 16,038	$ 0	$ 16,038	$ 0

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The following financial assets were measured at fair value on a non-recurring basis (in thousands):

		Fair Value Measurements Using		
Assets at March 31, 2012:	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired Loans				
One-to-four family residential	$ 10,942	$ 0	$ 0	$ 10,942
Multi-family residential	888	0	0	888
Commercial real estate	1,311	0	0	1,311
Total impaired loans	$ 13,141	$ 0	$ 0	$ 13,141
Assets at June 30, 2011				
Impaired Loans				
One-to-four family residential	$ 11,873	$ 0	$ 0	$ 11,873
Multi-family residential	1,334	0	0	1,334
Commercial real estate	3,630	0	0	3,630
Total impaired loans	$ 16,837	$ 0	$ 0	$ 16,837

At March 31, 2012, no nonfinancial assets were measured at fair value on a non-recurring basis. At June 31, 2011, the following nonfinancial assets were measured at fair value on a non-recurring basis (in thousands):

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets at June 30, 2011:				
Real estate owned: one-to-four family residential	$ 828	$ 0	$ 0	$ 828

Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment using the fair value of the collateral for collateral dependent loans, or alternatively, based on the present value of expected future cash flows discounted at the loan s effective interest rate. The fair value of collateral is calculated using an independent third party appraisal. For one-to-four family residential loans, appraised values are based on the comparative sales approach. A significant unobservable input in the sales approach is the adjustment for the differences between the comparable sales. At March 31, 2012, these adjustments ranged from an upward adjustment of 3.3% to a discount of 16.8%. For multi-family residential and commercial real estate loans, appraisers may use either a single valuation approach or a combination of approaches such as comparative sales, cost or the income approach. At March 31, 2012, adjustments made on multi-family residential and commercial real estate loans valued using the comparable sales approach ranged from 0.0% to a discount of 8.0%. A significant unobservable input in the income approach is the estimated income capitalization rate. At March 31, 2012, a 7.5% capitalization rate was utilized to determine the fair value of the underlying collateral of a multi-family residential loan. Impaired loans measured at fair value had a principal balance of $15.9 million at March 31, 2012 as compared to $22.2 million at June 30, 2011. The valuation allowance for these loans was $2.8 million at March 31, 2012 as compared to $5.3 million at June 30, 2011. The reduction of valuation allowance for impaired loans was primarily attributable to charge-offs of specific valuation allowances previously identified during the nine months ended March 31, 2012.

Real estate owned is measured at fair value less estimated costs to sell at transfer. If the fair value of the asset declines, a write-down is recorded through expense. During the three and nine months ended March 31, 2012, the Company did not incur a charge to reduce real estate owned to fair value. During the three and nine months ended March 31, 2011, the Company incurred charges of $10,000 and $164,000, respectively to reduce real estate owned to fair value.

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Fair Value of Financial Instruments

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

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

Cash and Cash Equivalents

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

Interest Earning Time Deposits in Other Financial Institutions

The carrying amounts of interest earning time deposits in other financial institutions approximate fair values and are classified as Level 2.

Investments

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

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

FHLB Stock

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

Loans

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

Accrued Interest Receivable

The carrying amounts of accrued interest receivable approximate fair value resulting in a Level 3 classification.

Deposits

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

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FHLB Advances

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

Off-Balance Sheet Financial Instruments

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

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

	Fair Value Measurements at March 31, 2012 Using:					June 30, 2011	
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Carrying Amount	Fair Value
Financial assets:							
Cash on hand and non-interest bearing due from bank accounts	$ 8,992	$ 8,992	$ 0	$ 0	$ 8,992	$ 9,214	$ 9,214
Federal funds sold	129,760	0	129,760	0	129,760	80,440	80,440
Interest earning time deposits in other financial institutions	0	0	0	0	0	11,669	11,669
Securities held-to-maturity	1,475	0	1,516	0	1,516	2,202	2,299
Federal Home Loan Bank Stock	8,968	0	0	NA	NA	10,334	NA
Loans receivable, net	694,639	0	0	721,539	721,539	679,809	687,135
Accrued interest receivable - loans	2,623	0	0	2,623	2,623	2,781	2,781
Accrued interest receivable - investments	116	0	116	0	116	70	70
Financial liabilities:							
Deposits	682,886	0	693,146	0	693,146	634,709	643,595
FHLB Advances	100,000	0	102,036	0	102,036	60,000	61,542

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Note 4 Investments

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

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
March 31, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 15,188	$ 79	$ 0	$ 15,109
Freddie Mac	5,851	8	(6)	5,849
Collateralized mortgage obligations (residential):				
Fannie Mae	21,435	0	(153)	21,588
Freddie Mac	15,512	49	(47)	15,510
Total	$ 57,986	$ 136	$ (206)	$ 58,056
June 30, 2011				
FHLB Bond	$ 4,999	$ 1	$ 0	$ 4,998
Mortgage-backed (residential):				
Freddie Mac	184	5	0	179
Collateralized mortgage obligations (residential):				
Fannie Mae	5,115	0	(95)	5,210
Freddie Mac	5,740	54	0	5,686
Total	$ 16,038	$ 60	$ (95)	$ 16,073

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2012				
Mortgage-backed (residential)				
Fannie Mae	$ 135	$ 3	$ 0	$ 138
Freddie Mac	97	6	0	103
Ginnie Mae	46	1	0	47
Collateralized mortgage obligations (residential)				
Fannie Mae	672	20	0	692
Freddie Mac	525	11	0	536
Total	$ 1,475	$ 41	$ 0	$ 1,516
June 30, 2011				
Mortgage-backed (residential)				
Fannie Mae	$ 144	$ 3	$ 0	$ 147
Freddie Mac	109	7	0	116
Ginnie Mae	52	1	0	53
Collateralized mortgage obligations (residential)				
Fannie Mae	908	32	0	940
Freddie Mac	989	54	0	1,043

Total	$	2,202	$	97	$	0	$ 2,299

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There were no sales of securities during the three or nine months ended March 31, 2012 or March 31, 2011.

All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at March 31, 2012. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties. An FHLB bond with a maturity date of April, 2014 was called during July 2011.

Securities with unrealized losses at March 31, 2012 and June 30, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2012						
Description of Securities						
Mortgage-backed (residential)	$ 3,414	$ (6)	$ 0	$ 0	$ 3,414	$ (6)
Collateralized mortgage obligations (residential)	32,744	(200)	0	0	32,744	(200)
Total temporarily impaired	$ 36,158	$ (206)	$ 0	$ 0	$ 36,158	$ (206)
June 30, 2011						
Description of Securities						
Collateralized mortgage obligations (residential)	$ 5,115	$ (95)	$ 0	$ 0	$ 5,115	$ (95)
Total temporarily impaired	$ 5,115	$ (95)	$ 0	$ 0	$ 5,115	$ (95)

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

At March 31, 2012, nine debt securities had an aggregate unrealized loss of 0.3% of the Company s amortized cost basis. At June 30, 2011, one debt security had an unrealized loss of 0.5% of the Company s amortized cost basis. The unrealized losses relate principally to the general change in interest rates and liquidity, and not credit quality, that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management has the intent and ability to hold debt securities until recovery, which may be maturity, and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, no declines in fair value are deemed to be other-than-temporary as of March 31, 2012 and June 30, 2011.

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

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Note 5 Loans

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

	March 31, 2012	June 30, 2011
Real Estate:		
One-to-four family residential, fixed rate	$ 235,331	$ 229,449
One-to-four family residential, variable rate	81,747	52,619
Multi-family residential, variable rate	279,369	287,808
Commercial real estate, variable rate	89,106	107,961
	685,553	677,837
Consumer:		
Automobile	16,086	18,008
Home equity	855	940
Other consumer loans, primarily unsecured	11,893	10,604
	28,834	29,552
Total loans	714,387	707,389
Deferred net loan origination costs	463	659
Net premium (discounts) on purchased loans	858	(35)
Allowance for loan losses	(7,928)	(11,367)
	$ 707,780	$ 696,646

During the three months ended March 31, 2012, the Bank purchased $13.0 million newly originated adjustable and fixed rate one-to-four family loans at a premium of 2.50%, or $326,000. The purchased loans carried a weighted average interest rate of 3.97% net of servicing fees of 25 basis points and are serviced by an outside servicer. During the nine months ended March 31, 2012, the Bank purchased $47.8 million of newly originated adjustable and fixed rate one-to-four family loans at a premium of 2.22%, or $1.0 million. The purchased loans carried a weighted average interest rate of 4.22% net of servicing fees of 25 basis points and are serviced by an outside servicer. Each purchased loan was underwritten in accordance with the Bank s underwriting standards and met the Bank s residential underwriting requirements. The loans purchased were current at the time of purchase.

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

	Allowance for loan losses for the Three months ended March 31, 2012						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 5,191	$ 1,572	$ 1,294	$ 58	$ 46	$ 32	$ 8,193
Provision for loan losses	117	(92)	(33)	(16)	21	3	0
Recoveries	0	0	0	19	0	2	21
Loans charged-off	(285)	0	0	0	0	(1)	(286)
Balance, end of period	$ 5,023	$ 1,480	$ 1,261	$ 61	$ 67	$ 36	$ 7,928

	Allowance for loan losses for the Three months ended March 31, 2011						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 5,932	$ 4,056	$ 2,151	$ 118	$ 13	$ 32	$ 12,302
Provision for loan losses	1,335	(1,204)	(83)	(46)	3	(5)	0
Recoveries	0	0	0	27	0	6	33
Loans charged-off	(481)	0	0	(24)	0	(6)	(511)
Balance, end of period	$ 6,786	$ 2,852	$ 2,068	$ 75	$ 16	$ 27	$ 11,824

	Allowance for loan losses for the Nine months ended March 31, 2012						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Balance, beginning of period	$ 6,365	$ 2,654	$ 2,254	$ 59	$ 13	$ 22	$ 11,367
Provision for loan losses	844	62	(935)	(54)	54	29	0
Recoveries	104	0	0	82	0	7	193
Loans charged-off	(2,290)	(1,236)	(58)	(26)	0	(22)	(3,632)
Balance, end of period	$ 5,023	$ 1,480	$ 1,261	$ 61	$ 67	$ 36	$ 7,928

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	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
			Allowance for loan losses for the Nine months ended March 31, 2011				
Balance, beginning of period	$ 7,812	$ 3,643	$ 1,599	$ 185	$ 9	$ 61	$ 13,309
Provision for loan losses	593	(19)	469	(134)	7	34	950
Recoveries	90	0	0	90	0	23	203
Loans charged-off	(1,709)	(772)	0	(66)	0	(91)	(2,638)
Balance, end of period	$ 6,786	$ 2,852	$ 2,068	$ 75	$ 16	$ 27	$ 11,824

At March 31, 2012, non-accrual loans totaled $25.1 million, compared to $26.4 million at June 30, 2011. At March 31, 2012 and June 30, 2011, there were no loans past due more than 90 days and still accruing interest. The difference between the recorded investment and unpaid principal balance of loans relates to accrued interest, net deferred origination costs and net premiums and discounts on purchased loans each of which is immaterial to each loan class.

There was no provision for loan losses for the three and nine months ended March 31, 2012 as compared to no provision for the three months ended March 31, 2011, and $950,000 for the nine months ended March 31, 2011. While the net provision for loan losses was zero for the three months ended March 31, 2012, it was comprised of a $117,000 provision on one-to-four family loans, a $92,000 reduction in provision on multi-family loans, a $33,000 reduction in provision on commercial real estate loans, a $16,000 reduction in provision on automobile loans, a $21,000 provision on home equity loans and a $3,000 provision on other loans. The reduction in provision on multi-family loans was primarily due to a decline in the overall historical peer group loss factors on loans collectively evaluated for impairment and a reduction in the valuation allowance on multi-family loans that were individually evaluated for impairment.

While the net provision for loan losses was zero for the nine months ended March 31, 2012, it was comprised of a $844,000 provision on one-to-four family loans, a $62,000 provision on multi-family loans, a $935,000 reduction in provision on commercial real estate loans, a $54,000 reduction in provision on automobile loans, a $54,000 provision on home equity loans and a $29,000 provision on other loans. The reduction in provision on commercial real estate loans was primarily due to a decline in the overall historical peer group loss factors on loans collectively evaluated for impairment, a decline in the balance of commercial real estate loans collectively evaluated for impairment and a reduction in the valuation allowance on commercial real estate loans that were individually evaluated for impairment.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2012 and June 30, 2011 (in thousands):

March 31, 2012	**One-to-four family**	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 2,327	$ 150	$ 277	$ 6	$ 37	$ 4	$ 2,801
Collectively evaluated for impairment	2,696	1,330	984	55	30	32	5,127
Total ending allowance balance	$ 5,023	$ 1,480	$ 1,261	$ 61	$ 67	$ 36	$ 7,928

	One-to-four family	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Loans:							
Individually evaluated for impairment	$ 19,189	$ 2,431	$ 4,234	$ 6	$ 37	$ 4	$ 25,901
Collectively evaluated for impairment	297,889	276,938	84,872	16,080	818	11,889	688,486
Total ending loan balance	$ 317,078	$ 279,369	$ 89,106	$ 16,086	$ 855	$ 11,893	$ 714,387

June 30, 2011	**One-to-four family**	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 3,582	$ 1,107	$ 649	$ 0	$ 0	$ 5	$ 5,343
Collectively evaluated for impairment	2,783	1,547	1,605	59	13	17	6,024
Total ending allowance balance	$ 6,365	$ 2,654	$ 2,254	$ 59	$ 13	$ 22	$ 11,367

	One-to-four family	**Multi-family residential**	**Commercial real estate**	**Automobile**	**Home equity**	**Other**	**Total**
Loans:							
Individually evaluated for impairment	$ 18,385	$ 3,089	$ 4,917	$ 0	$ 0	$ 5	$ 26,396
Collectively evaluated for impairment	263,683	284,719	103,044	18,008	940	10,599	680,993
Total ending loan balance	$ 282,068	$ 287,808	$ 107,961	$ 18,008	$ 940	$ 10,604	$ 707,389

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A loan is impaired when it is probable, based on current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When it is determined that a loss is probable, a valuation allowance is established and included in the allowance for loan losses. The amount of impairment is determined by the difference between the recorded investment in the loan and the present value of expected cash flows, or estimated net realizable value of the underlying collateral on collateral dependent loans.

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2012 and June 30, 2011 (in thousands):

March 31, 2012	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With no related allowance recorded:		
Real estate loans:		
One-to-four family	$ 5,921	$ 0
Multi-family residential	1,392	0
Commercial real estate	2,646	0
	9,959	0
With an allowance recorded:		
Real estate loans:		
One-to-four family	13,268	2,327
Multi-family residential	1,039	150
Commercial real estate	1,588	277
Other loans:		
Automobile	6	6
Home equity	37	37
Other	4	4
	15,942	2,801
Total	$ 25,901	$ 2,801

June 30, 2011	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With no related allowance recorded:		
Real estate loans:		
One-to-four family	$ 2,931	$ 0
Multi-family residential	648	0
Commercial real estate	637	0
	4,216	0
With an allowance recorded:		
Real estate loans:		
One-to-four family	15,454	3,582
Multi-family residential	2,441	1,107
Commercial real estate	4,280	649
Other loans:		
Other	5	5
	22,180	5,343

Total	$	26,396	$	5,343

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The following table presents monthly average of individually impaired loans by class as of March 31, 2012 and March 31, 2011 (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	2012	2011
Real estate loan:				
One-to-four family	$ 19,198	$ 20,694	$ 18,813	$ 22,055
Multi-family residential	2,436	2,767	2,854	