TF FINANCIAL CORP
Form 10-Q
May 14, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 2009

- or -

o	**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: 0-24168

TF FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**74-2705050** (I.R.S. Employer Identification No.)
3 Penns Trail, Newtown, Pennsylvania (Address of Principal Executive Offices)	**18940** (Zip Code)

Registrant s telephone number, including area code: **(215) 579-4000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 Exchange Act). YES o NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: **May 8, 2009**

Class	**Outstanding**
$.10 par value common stock	2,663,121 shares

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TF Financial Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

		Unaudited March 31, 2009		Audited December 31, 2008
		(in thousands)		
ASSETS				
Cash and cash equivalents	$	3,896	$	2,719
Investment securities available for sale at fair value		28,555		31,619
Mortgage-backed securities available for sale at fair value		101,105		107,217
Mortgage-backed securities held to maturity (fair value of $4,854 and $4,996, respectively)		4,573		4,774
Loans receivable, net		541,031		544,330
Loans receivable held for sale		1,463		1,659
Federal Home Loan Bank stock at cost		9,896		9,896
Accrued interest receivable		2,640		2,788
Premises and equipment, net		5,497		5,636
Goodwill		4,324		4,324
Bank-owned life insurance		16,674		16,514
Other assets		4,271		2,232
TOTAL ASSETS	$	723,925		733,708
LIABILITIES AND STOCKHOLDERS EQUITY				
Liabilities				
Deposits	$	504,515	$	489,850
Borrowings from the Federal Home Loan Bank		131,576		158,148
Other short-term borrowings		10,000		10,000
Advances from borrowers for taxes and insurance		2,112		2,315
Accrued interest payable		3,608		3,066
Other liabilities		3,213		2,637
Total liabilities		655,024		666,016
Stockholders equity				
Preferred stock, no par value; 2,000,000 shares authorized at March 31, 2009 and December 31, 2008, none issued				
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,519,026 and 2,515,407 shares outstanding at March 31, 2009 and December 31, 2008, respectively, net of shares in treasury 2,627,129 and 2,627,752, respectively		529		529
Additional paid-in capital		53,935		53,897
Unearned ESOP shares		(1,438)		(1,468)
Treasury stock-at cost		(54,535)		(54,538)
Retained earnings		70,392		69,875
Accumulated other comprehensive income (loss)		18		(603)
Total stockholders equity		68,901		67,692
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	723,925	$	733,708

The accompanying notes are an integral part of these statements

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TF Financial Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	For the three months ended March 31, 2009		2008	
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$	7,655	$	8,183
Mortgage-backed securities		1,385		1,231
Investment securities		277		413
Interest-bearing deposits and other				6
TOTAL INTEREST INCOME		9,317		9,833
Interest expense				
Deposits		2,513		3,286
Borrowings		1,285		1,632
TOTAL INTEREST EXPENSE		3,798		4,918
NET INTEREST INCOME		5,519		4,915
Provision for loan losses		665		
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		4,854		4,915
Non-interest income				
Service fees, charges and other operating income		437		693
Bank owned life insurance		160		159
Gain on sale of investments		190		
Gain on sale of loans		148		62
Other income				197
TOTAL NON-INTEREST INCOME		935		1,111
Non-interest expense				
Employee compensation and benefits		2,671		2,538
Occupancy and equipment		710		728
Professional fees		273		254
Marketing and advertising		148		144
Other operating		622		598
TOTAL NON-INTEREST EXPENSE		4,424		4,262
INCOME BEFORE INCOME TAXES		1,365		1,764
Income tax expense		345		483
NET INCOME	$	1,020	$	1,281
Earnings per share basic	$	0.41	$	0.48
Earnings per share diluted	$	0.41	$	0.48
Dividends paid per share	$	0.20	$	0.20

The accompanying notes are an integral part of these statements.

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TF Financial Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2009	2008
	(in thousands)	
OPERATING ACTIVITIES		
Net income	$ 1,020	$ 1,281
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of:		
Mortgage loan servicing rights	81	13
Deferred loan origination fees	11	(20)
Premiums and discounts on investment securities, net	22	22
Premiums and discounts on mortgage-backed securities, net	(95)	(59)
Premiums and discounts on loans, net	49	21
Provision for loan losses	665	
Depreciation of premises and equipment	222	242
Increase in value of bank-owned life insurance	(160)	(159)
Restricted stock grant expense	4	90
Stock option expense	14	94
Stock-based benefit programs: ESOP	53	71
Proceeds from sale of loans receivable held for sale	12,505	5,123
Origination of loans held for sale	(12,296)	(4,870)
(Gain) loss on sale of		
Loans receivable held for sale	(148)	(62)
Investments	(190)	
Expense from loans receivable held for sale	13	
Expense (income) from mortgage loan derivatives	18	(10)
(Income)expense associated with forward loan sales	(35)	17
Decrease (increase) in		
Accrued interest receivable	148	163
Other assets	187	(243)
Increase in		
Accrued interest payable	542	277
Other liabilities	293	242
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,923	2,233
INVESTING ACTIVITIES		
Loan originations	(22,963)	(47,228)
Loan principal payments	23,372	23,031
Principal repayments on mortgage-backed securities held to maturity	205	255
Principal repayments on mortgage-backed securities available for sale	7,201	4,910
Proceeds from sale of investment securities available for sale	3,135	
Purchases of Federal Home Loan Bank stock, net		(547)
Purchase of premises and equipment	(83)	(33)
NET CASH PROVIDED BY(USED IN) INVESTING ACTIVITIES	10,867	(19,612)

FINANCING ACTIVITIES				
Net increase in deposits		14,665		6,570
Net (decrease) increase in short-term borrowings from the Federal Home Loan Bank and other		(13,619)		7,551
Proceeds of long-term Federal Home Loan Bank borrowings				7,900
Repayment of long-term Federal Home Loan Bank borrowings		(12,953)		(5,071)
Net decrease in advances from borrowers for taxes and insurance		(203)		(191)
Treasury stock acquired		(101)		(253)
Exercise of stock options		101		8
Common stock dividends paid		(503)		(534)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(12,613)		15,980
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		1,177		(1,399)
Cash and cash equivalents at beginning of period		2,719		5,680
Cash and cash equivalents at end of period	$	3,896	$	4,281
Supplemental disclosure of cash flow information				
Cash paid for				
Interest on deposits and borrowings	$	3,256	$	4,641
Income taxes	$	55	$	22
Non-cash transactions				
Capitalization of mortgage servicing rights	$	121	$	65
Transfers from loans to real estate acquired through foreclosure	$	2,164	$	306

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of March 31, 2009 (unaudited) and December 31, 2008 and for the three months ended March 31, 2009 and 2008 (unaudited) include the accounts of TF Financial Corporation (the Company) and its wholly owned subsidiaries Third Federal Bank (the Bank), TF Investments Corporation and Penns Trail Development Corporation. The Company s business is conducted principally through the Bank. All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended March 31, 2009 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

NOTE 3 - 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 4 - OTHER COMPREHENSIVE INCOME

The Company follows Statement of Financial Accounting Standard (SFAS) No. 130, Reporting Comprehensive Income. SFAS 130 establishes standards to provide prominent disclosure of comprehensive income items. Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of other comprehensive income are as follows for the three months ended:

March 31, 2009

	Before tax amount	Tax benefit (expense) (in thousands)	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	$ 1,090	$ (372)	$ 718
Reclassification adjustment for gains realized in net income	(190)	65	(125)
Pension plan benefit adjustment related to prior service costs and actuarial losses	46	(18)	28
Other comprehensive income, net	$ 946	$ (325)	$ 621

	Before tax amount	March 31, 2008 Tax expense (in thousands)	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	$ 1,690	$ (575)	$ 1,115
Pension plan benefit adjustment related to prior service costs and actuarial losses	22	(8)	14
Other comprehensive income, net	$ 1,712	$ (583)	$ 1,129

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NOTE 5 - EARNINGS PER SHARE

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except per share data):

	Three months ended March 31, 2009		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$ 1,020	2,516,962	$ 0.41
Effect of dilutive securities			
Stock options and grants			
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$ 1,020	2,516,962	$ 0.41

There were 256,893 options to purchase shares of common stock at an average price range of $20.30 to $34.14 per share which were outstanding for the three months ended March 31, 2009 that were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares.

	Three months ended March 31, 2008		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$ 1,281	2,670,513	$ 0.48
Effect of dilutive securities			
Stock options and grants			
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$ 1,281	2,670,513	$ 0.48

There were 209,883 options to purchase shares of common stock at an average price range of $24.71 to $34.14 per share which were outstanding for the three months ended March 31, 2008 that were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares.

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NOTE 6 - FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), Fair Value Measurements . SFAS 157 defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 establishes a fair value measurement hierarchy for inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The fair value hierarchy levels are summarized below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable and contain assumptions of the party fair valuing the asset or liability.

Determination of the appropriate level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement for the instrument or security. Assets and liabilities measured at fair value on a recurring basis segregated by value hierarchy level are summarized below (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2009
Assets				
Investment securities available for sale	$ 165	$ 28,390	$	$ 28,555
Mortgage-backed securities available for sale		101,105		101,105
Loans receivable held for sale	1,463			1,463
Impaired loans			3,486	3,486
Liabilities				
Forward loan sales/derivatives			7	7

Investment securities available for sale and mortgage-backed securities available for sale are valued primarily by a third party pricing agent. Active listed equities are generally classified within Level 1 of the fair value hierarchy. Government-sponsored agency debt securities and corporate bonds are primarily priced through a multi-dimensional relational model, a level 2 hierarchy, which incorporates dealer quotes and other market information including, defined sector breakdown, benchmark yields, base spread, yield to maturity, and corporate actions. Municipal securities are also measured within the level 2 hierarchy using inputs with a series of matrices that reflect benchmark yields, ratings updates, and spread adjustments. Mortgage-backed securities include FNMA and FHLMC certificates and real estate mortgage investment conduits which are valued under a level 2 hierarchy using a matrix correlation to benchmark yields, spread analysis, and prepayment speeds. Loans originated and held for sale in the secondary market are carried at fair value on an individual basis.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are real estate secured. Market value is determined by using the value of the collateral securing the loans and is therefore classified as a level 3 hierarchy. The value of the real estate is determined by qualified independent licensed appraisers contracted by the Company to perform the assessment. The appraised value is then discounted based upon management s experience, which includes estimated disposal costs, understanding of the customer and the customer s business as well as economic conditions. Impaired loans are reviewed and evaluated on a quarterly basis for additional impairment and adjusted accordingly, based upon the pertinent conditions.

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The fair value of derivative loan commitments and forward loan sales are determined at the time the underlying loan is identified as held for sale with changes in fair value correlated to the change in secondary market loan pricing. The value is adjusted to reflect the Company s historical loan fallout experience which incorporates such factors as changes in market rates, origination channels and loan purpose.

The following table presents additional information about assets measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value (in thousands):

		Derivative loan commitments
Beginning balance December 31, 2008	$	18
Total losses realized/unrealized:		
Included in earnings		(18)
Included in other comprehensive income		
Purchases, issuances, and settlements		
Ending balance, March 31, 2009	$	

		Forward loan sales
Beginning balance December 31, 2007	$	42
Total gains realized/unrealized:		
Included in earnings		(35)
Included in other comprehensive income		
Purchases, issuances, and settlements		
Ending balance March 31, 2009	$	7

The Company also measures certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. Adjustments may result from application of lower-of-cost or fair value accounting.

NOTE 7 - STOCK BASED COMPENSATION

The Company has stock benefit plans that allow the Company to grant options and restricted stock to employees and directors. The awards, which have a term of up to 10 years when issued, vest over a three to five year period. The exercise price of each award equals the market price of the Company s stock on the date of the grant. At March 31, 2009, there was $185,197 of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested awards under the Plan. That cost is expected to be recognized over a weighted average period of 27.6 months. Option activity under the Company s stock option plan as of March 31, 2009 is as follows:

	2009			
	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (in years)	Aggregate intrinsic value ($ 000)

Outstanding at January 1, 2009	287,336	$	25.67			
Options granted						
Options exercised	(5,000)		20.88			
Options forfeited	(175)		31.88			
Options expired						
Outstanding at March 31, 2009	282,161	$	25.75	3.08	$	114
Options exercisable at March 31, 2009	229,364	$	26.62	2.39	$	114

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter and the exercise price, multiplied by the number of in-the money options).

The aggregate intrinsic value of options exercised during the three months ended March 31, 2009 and 2008 was

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$14,000 and $2,100, respectively. Exercise of stock options during the three months ended March 31, 2009 and 2008 resulted in cash receipts of $101,000 and $8,000, respectively.

Stock-based compensation expense included in net income related to restricted stock grants was $4,000 and $90,000 for the quarters ended March 31, 2009 and 2008, respectively. Stock-based compensation expense included in net income related to the Company s employee stock ownership plan totaled $40,000 and $55,000 for the quarter ended March 31, 2009 and 2008, respectively.

Stock-based compensation expense included in net income related to stock options was $14,000 and $94,000 for the quarters ended March 31, 2009 and 2008 respectively, resulting in a tax benefit of $5,000 and $29,000, respectively.

NOTE 8 - EMPLOYEE BENEFIT PLANS

Net periodic defined benefit pension cost included the following (in thousands):

	Three months ended March 31,	
	2009	**2008**
Components of net periodic benefit cost		
Service cost	$ 118	$ 98
Interest cost	62	62
Expected return on plan assets	(93)	(105)
Amortization of prior service cost		8
Recognized net actuarial (gain) loss	46	14
Net periodic benefit cost	$ 133	$ 77

The employer contribution made for the three months ended March 31, 2009 and 2008 was $0 and $218,000, respectively.

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NOTE 9 - NEW ACCOUNTING PRONOUNCEMENTS

In December 2008, FASB issued FSP FAS (132) R-1, Employers Disclosures about Postretirement Benefit Plan Assets which amends SFAS 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits to require more detailed disclosure about employer plan assets, including employer s investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The new disclosures are required to be included in financial statements for fiscal years ending after December 15, 2009 with early application permitted. This FSP only requires additional disclosures, and will not affect the Company s financial position or results of operation or cash flows.

In April 2009, FASB issued FASB Staff Position (FSP) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly . FAS 157-4 provides additional guidance on (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value implications of both (a) and (b). The objectives emphasized in SFAS 157, Fair Value Measurements have not changed. FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and is applied prospectively. Early adoption is permitted for periods ending after March 15, 2009, however FAS 157-4 must be adopted at the same time as FAS 115-2/FAS 124-2 which is discussed below. The Company has not adopted FAS 157-4 as of March 31, 2009 and is evaluating the impact FAS 157-4 will have on its consolidated financial statements.

In April 2009, FASB issued (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairment . This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. Of significance is the revision to the other-than-temporary loss of a debt security recorded in earnings. FAS 115-2/FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009 and is applied prospectively. Early adoption is permitted for periods ending after March 15, 2009, however FAS 115-2/FAS 124-2 must be adopted at the same time as FAS 157-4 discussed above. The Company has not adopted FAS 115-2/FAS 124-2 as of March 31, 2009 and is evaluating the impact FAS 115-2/FAS 124-2 will have on its consolidated financial statements.

In April 2009, FASB issued (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value Instruments . This FSP requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements of publicly traded companies. This FSP is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Early adoption of FAS 107-1 and APB 28-1 requires early adoption of FAS 157-4 and FAS115-2 and FAS 124-2. The Company has not adopted FAS 107-1/APB 28-1as of March 31, 2009 and is evaluating the impact FAS 107-1/APB28-1 will have on its consolidated financial statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

GENERAL

The Company may from time to time make written or oral forward-looking statements , including statements contained in the Company s filings with the Securities and Exchange Commission (including this Quarterly Report on Form 10-Q and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company s control). The following factors, among others, could cause the Company s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors products and services; the willingness of users to substitute competitors products and services for the Company s products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Financial Position

The Company s total assets at March 31, 2009 and December 31, 2008 were $723.9 million and $733.7 million, respectively, a decrease of $9.8 million, or 1.3% during the three-month period. Investment securities available for sale decreased $3.1 million due to the sale of a debt security. Mortgage-backed securities available for sale decreased by $6.1 million due to principal repayments received of $7.2 million, offset by an increase in the fair value of the securities of $1.0 million and net discount accretion of $0.1 million. Mortgage-backed securities held to maturity decreased by $0.2 million mainly as a result of principal repayments.

Loans receivable decreased by $3.3 million during the first three months of 2009. Consumer and single-family residential mortgage loans of $15.0 million and commercial loans of $8.0 were originated during the first quarter of 2009. Principal repayments of loans receivable totaled

$23.4 million. During the first quarter of 2009, the Company increased the allowance for loan losses by $665,000 and also transferred $2.2 million from loans to real estate owned as a result of real estate acquired through foreclosure. Loans originated for sale during the first three months of 2009 totaled $12.3 million, and there was $12.5 million in proceeds from the sale of loans in the secondary market during this period.

Total liabilities decreased by $11.0 million during the first quarter of 2009. Deposit balances grew by $14.7 million due to an increase of $6.2 million in retail certificates of deposit and an increase in money market and interest checking accounts of $12.3 million during this time period. Non-interest checking and savings accounts decreased by $3.8 million. Advances from the Federal Home Loan Bank decreased by $26.6 million in the first three months of 2009, the result of a $13.6 million decrease in short-term borrowings and scheduled amortization payments of $13.0 million.

Total consolidated stockholder s equity of the Company was $68.9 million or 9.5% of total assets at March 31, 2009. During the first three months of 2009, the Company repurchased 4,377 shares of its common stock and issued 5,000 shares pursuant to the exercise of stock options. At March 31, 2009, there were approximately 102,000 shares available for repurchase under the previously announced share repurchase plan.

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Asset Quality

At the end of the first quarter of 2009, the Company completed foreclosure proceedings on three parcels of real estate which have been recorded as real estate owned totaling $2.2 million and are included in other assets in the consolidated balance sheet at March 31, 2009. These loans were non-performing at December 31, 2008. As a result of these foreclosures, the Bank recorded a charge-off in the amount of $94,000. One property with a carrying value of $750,000 has been sold at a sheriff s sale and the Company is currently awaiting distribution of the proceeds which are in excess of the carrying value of the property. During the first three months of 2009 and 2008, the Company s provision for loan losses was $665,000 and $0, respectively. With respect to each of the remaining non-performing loans, all of which are real estate secured, the Bank is taking appropriate steps to resolve the individual situations.

The following table sets forth information regarding the Company s asset quality (dollars in thousands):

	March 31, 2009	December 31, 2008	March 31, 2008
Non-performing loans	$ 3,486	$ 5,279	$ 3,144
Ratio of non-performing loans to gross loans	0.64%	0.96%	0.58%
Ratio of non-performing loans to total assets	0.48%	0.72%	0.44%
Ratio of total non-performing assets to total assets	0.78%	0.72%	0.48%
Ratio of allowance for loan losses to total loans	0.81%	0.70%	0.46%
Ratio of allowance for loan losses to non-performing loans	126.94%	73.03%	79.61%

Management maintains an allowance for loan losses at levels that are believed to be adequate; however, there can be no assurances that further additions will not be necessary or that losses inherent in the existing loan portfolio will not exceed the allowance. The following table sets forth the activity in the allowance for loan losses during the periods indicated (in thousands):

	2009	2008
Beginning balance, January 1,	$ 3,855	$ 2,842
Provision	665	
Less: charge-off s, net	95	339
Ending balance, March 31,	$ 4,425	$ 2,503

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Net Income. The Company recorded net income of $1,020,000, or $0.41 per diluted share, for the three months ended March 31, 2009 as compared to net income of $1,281,000, or $0.48 per diluted share, for the three months ended March 31, 2008.

Average Balance Sheet

The following table sets forth information (dollars in thousands) relating to the Company s average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Yield and cost are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the three-month periods indicated.

	March 31,					
	2009			2008		
	Average balance	Interest	Average yld/cost	Average balance	Interest	Average yld/cost
ASSETS						
Interest-earning assets:						
Loans receivable(1)	$ 545,097	$ 7,655	5.70%	$ 528,865	$ 8,183	6.22%
Mortgage-backed securities	109,377	1,385	5.14%	102,223	1,231	4.84%
Investment securities(2)	39,458	379	3.90%	41,783	519	5.00%
Other interest-earning assets(3)	501	*	%	971	6	2.49%
Total interest-earning assets	694,433	9,419	5.50%	673,842	9,939	5.93%
Non interest-earning assets	34,984			34,879		
Total assets	$ 729,417			$ 708,721		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Deposits	494,969	2,513	2.06%	473,160	3,286	2.79%
Borrowings from the FHLB and other borrowings	157,928	1,285	3.30%	159,051	1,632	4.13%
Total interest-bearing liabilities	652,897	3,798	2.36%	632,211	4,918	3.13%
Non interest-bearing liabilities	8,471			8,531		
Total liabilities	661,368			640,742		
Stockholders equity	68,049			67,979		
Total liabilities and stockholders equity	$ 729,417			$ 708,721		
Net interest income tax equivalent basis		$ 5,621			$ 5,021	
Interest rate spread(4)-tax equivalent basis			3.14%			2.80%
Net yield on interest-earning assets(5) tax equivalent basis			3.28%			3.00%
Ratio of average interest-earning assets to average interest-bearing liabilities			106.36%			106.58%
Less: tax equivalent interest adjustment		(102)			(106)	
Net interest income		$ 5,519			$ 4,915	
Interest rate spread(4)			3.08%			2.74%
Net yield on interest-earning assets(5)			3.23%			2.93%

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.
(2) Tax equivalent adjustments to interest on investment securities were $102,000 and $106,000 for the quarter ended March 31, 2009 and 2008, respectively. Tax equivalent interest income is based upon a marginal effective tax rate of 34%.
(3) Includes interest-bearing deposits in other banks.
(4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.
* Is less than $500 for period indicated.

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Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Three months ended March 31, 2009 vs 2008 Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Loans receivable, net	$ 1,343	$ (1,871)	$ (528)
Mortgage-backed securities	83	71	154
Investment securities (1)	(28)	(112)	(140)
Other interest-earning assets	(2)	(4)	(6)
Total interest-earning assets	1,396	(1,916)	(520)
Interest expense:			
Deposits	921	(1,694)	(773)
Borrowings from the FHLB and other borrowings	(12)	(335)	(347)
Total interest-bearing liabilities	909	(2,029)	(1,120)
Net change in net interest income	$ 487	$ 113	$ 600

(1) Tax equivalent adjustments to interest on investment securities were $102,000 and $106,000 for the quarters ended March 31, 2009 and 2008, respectively. Tax equivalent interest income is based upon a marginal effective tax rate of 34%.

Total Interest Income. Total interest income, on a tax equivalent basis, decreased by $520,000 for the quarter ended March 31, 2009 compared with the first quarter of 2008. The average balance of loans outstanding increased by $16.2 million between the two periods as a result of loan originations added to the portfolio during the intervening period. However, the average yield on loans decreased 52 basis points primarily as a result of the Bank s reduction of its prime rate four times during the last three quarters of 2008 by a combined 200 basis points mirroring the action taken by the Federal Open Market Committee (FOMC) when it acted to reduce the fed funds rate. Interest income from mortgage-backed securities was higher in the first quarter of 2009 versus the same period of 2008 as security purchases in excess of principal repayments during the intervening period resulted in higher average balances of these securities. Interest income from investment securities decreased as a result of the suspension of dividends paid during the first quarter of 2009 on the Company s $9.9 million required holdings of FHLB stock.

Total Interest Expense. Total interest expense decreased by $1.1 million to $3.8 million during the quarter ended March 31, 2009 as compared with the first quarter of 2008. Despite an increase in the average outstanding balance of deposits of $21.8 million between the two quarters, interest rates paid on the Bank s deposits were significantly lower during the 2009 period.

Interest expense associated with borrowings from the Federal Home Loan Bank and Federal Reserve Bank was $347,000 lower in the first quarter of 2009 compared to the first quarter of 2008. During the intervening period, the interest rate on short-term advances decreased and advances with a higher cost matured which resulted in an 83 basis point decline in the cost associated with borrowings from the FHLB and other borrowings.

Non-interest income. Total non-interest income was $935,000 for the first quarter of 2009 compared with $1,111,000 for the same period in 2008. Amortization of mortgage servicing rights in the first quarter of 2009 increased thereby reducing loan servicing income between the periods by $39,000. Overdraft fees earned in first three months of 2009 were $60,000 lower than the same period in 2008. The first quarter of 2008 included a $197,000 insurance claim recovery. Additionally, other income during the first quarter of 2008 included $100,000 of non-recurring income recognized due to forfeited deposits on real estate held for development. Offsetting these decreases was a gain on the sale of an investment security of $190,000 in the first quarter of 2009 while there was no such gain in the first quarter of 2008. Also, during 2009, the gain on sale of loans rose $86,000 as a result of the high level of residential loan refinancing activity which occurred in 2009.

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Non-interest expense. Total non-interest expense increased by $162,000 to $4.4 million for the three months ended March 31, 2009 compared to the same period in 2008. Employee compensation increased by $217,000 the combined result of annual salary increases and decreased commercial loan originations which lowered the deferral of in-house compensation costs. Also, costs associated with employee benefit plans rose $87,000 between the two quarters. Offsetting these increases was a decrease in compensation expense associated with stock options and grants of $166,000 as a result of substantial completion of the vesting period used for expense recognition in 2008. The decrease in occupancy and equipment costs is due to the closing of the branch office on Quakerbridge Road in Mercer County during the second quarter of 2008. Professional fees increased between the two periods as a result of higher legal costs associated with non-performing loans during the 2009 quarter. Other operating expense during the first quarter of 2009 included an increase in robbery and deposit related losses of $50,000.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company s liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company s short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, broker deposits, other borrowings, and new borrowings from the Federal Home Loan Bank. There has been no material adverse change during the three-month period ended March 31, 2009 in the ability of the Company and its subsidiaries to fund their operations.

At March 31, 2009, the Company had commitments outstanding under letters of credit of $1.3 million, commitments to originate loans of $20.3 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $49.1 million. At March 31, 2009, the Bank had $11.2 million outstanding commitments to sell loans. There has been no material change during the three months ended March 31, 2009 in any of the Company s other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank was in compliance with all of its capital requirements as of March 31, 2009.

CRITICAL ACCOUNTING POLICIES

Certain critical accounting policies of the Company require the use of significant judgment and accounting estimates in the preparation of the consolidated financial statements and related data of the Company. These accounting estimates require management to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Management believes that the most critical accounting policy requiring the use of accounting estimates and judgment is the determination of the allowance for loan losses. If the financial position of a significant amount of debtors should deteriorate more than the Company has estimated, present reserves for loan losses may be insufficient and additional provisions for loan losses may be required. The allowance for loan losses was $4.4 million at March 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)), the Company s principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files and submits pursuant to the rules and forms of the SEC is accumulated and communicated to the Company s management including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

During the quarter under report, there was no change in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor its subsidiaries are involved in any pending legal proceedings, other than routine legal matters occurring in the ordinary course of business that in the aggregate involve amounts which are believed by management to be immaterial to the consolidated financial condition or results of operations of the Company.

ITEM 1A. RISK FACTORS

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information on repurchases by the Company of its common stock in each month for the three months ended March 31, 2009:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan of Program	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
January 1-January 31, 2009	4,377	$ 22.99		101,957
February 1- February 28, 2009		$		101,957
March 1, 2009 - March 31, 2009		$		101,957
Quarterly total	4,377	$ 22.99		

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders (the Meeting) of the Company was held on April 29, 2009. There were outstanding and entitled to vote at the Meeting 2,662,871 shares of Common Stock of the Company. There were present at the meeting or by proxy the holders of 2,427,343 shares of Common Stock representing 91.16% of the total eligible votes to be cast. Proposal 1 was to elect three directors of the Company. Proposal 2 was to ratify the appointment of the independent auditor for the December 31, 2009 fiscal year. The result of the voting at the Meeting is as follows (percentages in terms of votes cast):

Proposal 1

Election of three directors of the Company.

Robert N. Dusek	FOR:	2,340,223	PERCENT FOR:	96.41%
	WITHHELD:	87,120	PERCENT WITHHELD:	3.59%
Carl F. Gregory	FOR:	2,373523	PERCENT FOR:	97.78%
	WITHHELD:	53,820	PERCENT WITHHELD:	2.22%
Kent C. Lufkin	FOR:	2,210,605	PERCENT FOR:	91.07%
	WITHHELD:	216,738	PERCENT WITHHELD:	8.93%

Proposal 2

Ratification of the appointment of Grant Thornton, LLP as independent auditor for the Company December 31, 2009 fiscal year.

FOR:	2,390,111	PERCENT FOR:	98.46%
AGAINST:	17,122	PERCENT AGAINST:	0.71%
ABSTAIN:	20,110	PERCENT ABSTAIN	0.83%

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

31. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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TF FINANCIAL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 14, 2009	/s/ Kent C. Lufkin Kent C. Lufkin President and CEO (Principal Executive Officer)
Date: May 14, 2009	/s/ Dennis R. Stewart Dennis R. Stewart Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)