TIMBERLAND BANCORP INC
Form 10-Q
August 06, 2018
UNITED STATES
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 quarterly period ended June 30, 2018

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 000-23333

TIMBERLAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1863696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

(360) 533-4747
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 (§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 _X_ No __

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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.

CLASS	SHARES OUTSTANDING AT AUGUST 1, 2018
Common stock, $.01 par value	7,395,927

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2018 and September 30, 2017
(Dollars in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	September 30, 2017 *
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 19,552	$ 17,447
Interest-bearing deposits in banks	137,274	130,741
Total cash and cash equivalents	156,826	148,188
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	63,132	43,034
Investment securities held to maturity, at amortized cost (estimated fair value $8,440 and $7,744)	7,951	7,139
Investment securities available for sale, at fair value	1,176	1,241
Federal Home Loan Bank of Des Moines (“FHLB”) stock	1,190	1,107
Other investments, at cost	3,000	3,000
Loans held for sale	2,321	3,599
Loans receivable, net of allowance for loan losses of $9,532 and $9,553	717,324	690,364
Premises and equipment, net	18,515	18,418
Other real estate owned (“OREO”) and other repossessed assets, net	2,112	3,301
Accrued interest receivable	2,797	2,520
Bank owned life insurance (“BOLI”)	19,673	19,266
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,980	1,825
Other assets	2,736	3,372
Total assets	$ 1,006,383	$ 952,024
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 229,201	$ 205,952
Interest-bearing	651,526	631,946
Total deposits	880,727	837,898
Other liabilities and accrued expenses	4,762	3,126
Total liabilities	885,489	841,024

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
June 30, 2018 and September 30, 2017
(Dollars in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	September 30, 2017 *
Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	$—	$ —
Common stock, $.01 par value; 50,000,000 shares authorized; 7,395,927 shares issued and outstanding - June 30, 2018 7,361,077 shares issued and outstanding - September 30, 2017	14,162	13,286
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(199)	(397)
Retained earnings	107,065	98,235
Accumulated other comprehensive loss	(134)	(124)
Total shareholders' equity	120,894	111,000
Total liabilities and shareholders' equity	$1,006,383	$ 952,024

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans receivable and loans held for sale	$9,530	$9,652	$28,342	$27,280
Investment securities	51	69	147	207
Dividends from mutual funds, FHLB stock and other investments	31	23	83	60
Interest-bearing deposits in banks and CDs	845	421	2,209	1,081
Total interest and dividend income	10,457	10,165	30,781	28,628
Interest expense				
Deposits	730	549	1,996	1,637
FHLB borrowings	—	369	—	979
Total interest expense	730	918	1,996	2,616
Net interest income	9,727	9,247	28,785	26,012
Recapture of loan losses	—	(1,000)	—	(1,250)
Net interest income after recapture of loan losses	9,727	10,247	28,785	27,262
Non-interest income				
Recoveries (other than temporary impairment "OTTI") on investment securities	19	—	60	—
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes	—	—	(5)	—
Net recoveries on investment securities	19	—	55	—
Service charges on deposits	1,137	1,153	3,447	3,348
ATM and debit card interchange transaction fees	921	855	2,648	2,448
BOLI net earnings	134	133	407	406
Gain on sales of loans, net	435	561	1,427	1,656
Escrow fees	47	51	158	191
Servicing income on loans sold	121	106	354	302
Other, net	331	297	868	873
Total non-interest income, net	3,145	3,156	9,364	9,224

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Non-interest expense				
Salaries and employee benefits	$3,912	$ 3,741	$11,862	$ 11,176
Premises and equipment	795	764	2,361	2,295
(Gain) loss on sales of premises and equipment, net	—	3	(113)	3
Advertising	205	170	591	499
OREO and other repossessed assets, net	(92)	4	114	22
ATM and debit card interchange transaction fees	334	375	982	1,036
Postage and courier	104	109	340	324
State and local taxes	169	176	498	484
Professional fees	368	230	829	629
Federal Deposit Insurance Corporation ("FDIC") insurance	101	99	242	319
Loan administration and foreclosure	76	20	247	113
Data processing and telecommunications	465	480	1,427	1,394
Deposit operations	285	301	815	850
Other	400	466	1,324	1,462
Total non-interest expense	7,122	6,938	21,519	20,606
Income before income taxes	5,750	6,465	16,630	15,880
Provision for income taxes	1,334	2,188	4,331	5,328
Net income	$4,416	$ 4,277	$12,299	$ 10,552
Net income per common share				
Basic	$0.60	$ 0.59	$1.68	$ 1.49
Diluted	$0.59	$ 0.58	$1.64	$ 1.44
Weighted average common shares outstanding				
Basic	7,345,618	7,269,564	7,328,702	7,088,134
Diluted	7,535,157	7,432,171	7,518,447	7,348,486
Dividends paid per common share	$0.23	$ 0.11	$0.47	$ 0.31

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive income				
Net income	$4,416	$4,277	$12,299	$10,552
Unrealized holding (loss) gain on investment securities available for sale, net of income taxes of ($1), $3, ($5) and ($11), respectively	(7)	5	(32)	(22)
Change in OTTI on investment securities held to maturity, net of income taxes:				
Adjustments related to other factors for which OTTI was previously recognized, net of income taxes of $0, $0, ($2) and $0, respectively	—	—	(6)	—
Amount reclassified to credit loss for previously recorded market loss, net of income taxes of $0, $0, $1 and $0, respectively	—	—	4	—
Accretion of OTTI on investment securities held to maturity, net of income taxes of $2, $5, $8 and $18, respectively	5	11	24	35
Total other comprehensive (loss) income, net of income taxes	(2)	16	(10)	13
Total comprehensive income	$4,414	$4,293	$12,289	$10,565

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Common Stock		Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
	Number of Shares	Amount				
Balance, September 30, 2016	6,943,868	$9,961	$ (661)	$87,709	$ (175)	$96,834
Net income	—	—	—	10,552	—	10,552
Other comprehensive income	—	—	—	—	13	13
Exercise of stock warrant	370,899	2,496	—	—	—	2,496
Exercise of stock options	39,810	265	—	—	—	265
Common stock dividends ($0.31 per common share)	—	—	—	(2,243)	—	(2,243)
Earned ESOP shares, net of income taxes	—	230	198	—	—	428
Stock option compensation expense	—	271	—	—	—	271
Balance, June 30, 2017	7,354,577	13,223	(463)	96,018	(162)	108,616
Balance, September 30, 2017	7,361,077	13,286	(397)	98,235	(124)	111,000
Net income	—	—	—	12,299	—	12,299
Other comprehensive loss	—	—	—	—	(10)	(10)
Exercise of stock options	34,850	292	—	—	—	292
Common stock dividends ($0.47 per common share)	—	—	—	(3,469)	—	(3,469)
Earned ESOP shares, net of income taxes	—	454	198	—	—	652
Stock option compensation expense	—	130	—	—	—	130
Balance, June 30, 2018	7,395,927	$14,162	$ (199)	$107,065	$ (134)	$120,894

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended June 30, 2018 and 2017
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income	$12,299	$10,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of loan losses	—	(1,250)
Depreciation	940	946
Earned ESOP shares	652	428
Stock option compensation expense	130	271
Net recoveries on investment securities	(55)	—
Gain on sales of OREO and other repossessed assets, net	(217)	(53)
Provision for OREO losses	224	42
Gain on sales of loans, net	(1,427)	(1,656)
(Gain) loss on sales of premises and equipment, net	(113)	3
Loans originated for sale	(46,256)	(54,805)
Proceeds from sales of loans	48,961	56,542
Amortization of MSRs	363	369
BOLI net earnings	(407)	(406)
Increase in deferred loan origination fees	3	80
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	1,445	(332)
Net cash provided by operating activities	16,542	10,731
Cash flows from investing activities		
Net (increase) decrease in CDs held for investment	(20,098)	11,813
Proceeds from maturities and prepayments of investment securities held to maturity	413	387
Purchase of investment securities held to maturity	(1,111)	—
Proceeds from maturities and prepayments of investment securities available for sale	28	49
Purchase of FHLB stock	(83)	(103)
Redemption of FHLB stock	—	1,200
Purchase of other investments	—	(3,000)
Increase in loans receivable, net	(27,287)	(23,566)
Additions to premises and equipment	(1,387)	(3,249)
Proceeds from sales of premises and equipment	463	—
Proceeds from sales of OREO and other repossessed assets	1,506	1,435
Net cash used in investing activities	(47,556)	(15,034)

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the nine months ended June 30, 2018 and 2017
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2018	2017
Cash flows from financing activities		
Net increase in deposits	$42,829	$57,284
Repayment of FHLB borrowings	—	(30,000)
Proceeds from exercise of stock options	292	265
Proceeds from exercise of stock warrant	—	2,496
Payment of dividends	(3,469)	(2,243)
Net cash provided by financing activities	39,652	27,802
Net increase in cash and cash equivalents	8,638	23,499
Cash and cash equivalents		
Beginning of period	148,188	108,941
End of period	$156,826	$132,440
Supplemental disclosure of cash flow information		
Income taxes paid	$2,208	$5,376
Interest paid	1,939	2,701
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$324	$724
Other comprehensive (loss) income related to investment securities	(10)	13

See notes to unaudited consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017 ("2017 Form 10-K"). The unaudited consolidated results of operations for the nine months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2018.

(b) Principles of Consolidation: The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, "Timberland Bank."

(d) The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the June 30, 2018 presentation with no change to net income or total shareholders' equity as previously reported.

(2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and were as follows as of June 30, 2018 and September 30, 2017 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	$ 1,466	$ 9	$ (19)	$ 1,456
Private label residential	489	575	(1)	1,063
U.S. Treasury and U.S government agency securities	5,996	—	(75)	5,921
Total	$ 7,951	$ 584	$ (95)	$ 8,440
Available for sale				
MBS: U.S. government agencies	$ 243	$ 9	$ —	$ 252
Mutual funds	1,000	—	(76)	924
Total	$ 1,243	$ 9	$ (76)	$ 1,176
September 30, 2017				
Held to maturity				
MBS:				
U.S. government agencies	$ 532	$ 11	$ (1)	$ 542
Private label residential	599	596	(2)	1,193
U.S. Treasury and U.S. government agency securities	6,008	10	(9)	6,009
Total	$ 7,139	$ 617	$ (12)	$ 7,744
Available for sale				
MBS: U.S. government agencies	$ 271	$ 18	$ —	$ 289
Mutual funds	1,000	—	(48)	952
Total	$ 1,271	$ 18	$ (48)	$ 1,241

Held to maturity and available for sale investment securities with unrealized losses were as follows for June 30, 2018 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$1,010	$ (18)	2	$67	$ (1)	5	$1,077	$ (19)
Private label residential	—	—	—	52	(1)	8	52	(1)
U.S. Treasury and U.S. government agency securities	5,921	(75)	2	—	—	—	5,921	(75)
Total	$6,931	$ (93)	4	$119	$ (2)	13	$7,050	$ (95)
Available for sale								
MBS: U.S. government agency	$35	$ —	1	$—	$ —	—	$35	$ —
Mutual funds	—	—	—	924	(76)	1	924	(76)
Total	$35	$ —	1	$924	$ (76)	1	$959	$ (76)

Held to maturity and available for sale investment securities with unrealized losses were as follows for September 30, 2017 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$—	$ —	—	$114	$ (1)	6	$114	$ (1)
Private label residential	—	—	—	85	(2)	10	85	(2)
U.S. Treasury and U.S. government agency securities	2,984	(9)	1	—	—	—	2,984	(9)
Total	$2,984	$ (9)	1	$199	$ (3)	16	$3,183	$ (12)
Available for sale								
Mutual funds	$—	$ —	—	$952	$ (48)	1	$952	$ (48)
Total	$—	$ —	—	$952	$ (48)	1	$952	$ (48)

The Company has evaluated the investment securities in the above tables and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of June 30, 2018, management does not have the intent to sell any of the securities classified as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost (or recorded value if previously written down).

The Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss). To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of the OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates, prepayment speeds and third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimates of the credit loss component on OTTI securities as of June 30, 2018 and 2017:

	Range Minimum	Range Maximum	Weighted Average
June 30, 2018			
Constant prepayment rate	6.00 %	15.00 %	11.58 %
Collateral default rate	— %	12.31 %	5.51 %
Loss severity rate	— %	74.00 %	42.49 %
June 30, 2017			
Constant prepayment rate	6.00 %	15.00 %	11.54 %
Collateral default rate	0.09 %	9.88 %	4.66 %
Loss severity rate	6.00 %	62.00 %	41.93 %

The following table presents the OTTI recoveries (losses) for the three and nine months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total recoveries	$ 19	$ —	$ —	$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	—	—	—	—
Net recoveries recognized in earnings (2)	$ 19	$ —	$ —	$ —

	Nine Months Ended June 30, 2018		Nine Months Ended June 30, 2017	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total recoveries	$ 60	$ —	$ —	$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	(5)	—	—	—
Net recoveries recognized in earnings (2)	$ 55	$ —	$ —	$ —

(1) Represents OTTI related to all other factors.
(2) Represents OTTI related to credit losses.

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The following table presents a roll forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings for the nine months ended June 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended June 30,	
	2018	2017
Beginning balance of credit loss	$1,301	$1,505
Additions:		
Additional increases to the amount related to credit loss for which OTTI was previously recognized	14	—
Subtractions:		
Realized losses previously recorded as credit losses	(69)	(48)
Recovery of prior credit loss	(55)	—
Ending balance of credit loss	$1,191	$1,457

During the three months ended June 30, 2018, the Company recorded a $28,000 net realized loss (as a result of the securities being deemed worthless) on 16 held to maturity investment securities, of which the entire amount had been recognized previously as a credit loss. During the nine months ended June 30, 2018, the Company recorded a $69,000 net realized loss (as a result of securities being deemed worthless) on 17 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss. During the three months ended June 30, 2017, the Company recorded a $12,000 net realized loss (as a result of the securities being deemed worthless) on 15 held to maturity investment securities, of which the entire amount had been recognized previously as a credit loss. During the nine months ended June 30, 2017, the Company recorded a $48,000 net realized loss (as a result of securities being deemed worthless) on 18 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss.

The recorded amount of investment securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral and other non-profit organization deposits totaled $7.20 million and $6.82 million at June 30, 2018 and September 30, 2017, respectively.

The contractual maturities of debt securities at June 30, 2018 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities due to the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$3,001	$ 2,983	$—	$ —
Due after one year to five years	4,018	3,943	—	—
Due after five years to ten years	42	42	—	—
Due after ten years	890	1,472	243	252
Total	$7,951	$ 8,440	$243	$ 252

(3) GOODWILL

Goodwill is initially recorded when the purchase price paid in a business combination exceeds the estimated fair value of the net identified tangible and intangible assets acquired and liabilities assumed. Goodwill is presumed to have an indefinite useful life and is analyzed annually for impairment. The Company performs an annual review during the third quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. For purposes of goodwill impairment testing, the services offered through the Bank and its subsidiary are managed as one strategic unit and represent the Company's only reporting unit.

The annual goodwill impairment test begins with a qualitative assessment of whether it is "more likely than not" that the reporting unit's fair value is less than its carrying amount. If an entity concludes that it is not "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it need not perform a two-step impairment test. If the Company's qualitative assessment concluded that it is "more likely than not" that the fair value of its reporting unit is less than its carrying amount, it must perform the two-step impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. The first step of the goodwill impairment test compares the estimated fair value of the reporting unit with its carrying amount, or the book value, including goodwill. If the estimated fair value of the reporting unit equals or exceeds its book value, goodwill is considered not impaired, and the second step of the impairment test is unnecessary.

The second step, if necessary, measures the amount of goodwill impairment loss to be recognized. The reporting unit must determine fair value for all assets and liabilities, excluding goodwill. The net of the assigned fair value of assets and liabilities is then compared to the book value of the reporting unit, and any excess book value becomes the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the newly calculated implied fair value of goodwill, an impairment loss is recognized in the amount required to write-down the goodwill to the implied fair value.

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carrying amount and therefore goodwill was determined not to be impaired at May 31, 2018.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. Any change in these indicators could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

As of June 30, 2018, management believes that there have been no events or changes in the circumstances since May 31, 2018 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(4) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable by portfolio segment consisted of the following at June 30, 2018 and September 30, 2017 (dollars in thousands):

	June 30, 2018		September 30, 2017	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (1)	$114,148	14.4 %	$118,147	15.1 %
Multi-family	58,169	7.3	58,607	7.5
Commercial	345,543	43.5	328,927	41.9
Construction - custom and owner/builder	113,468	14.3	117,641	15.0
Construction - speculative one- to four-family	10,146	1.3	9,918	1.2
Construction - commercial	26,347	3.3	19,630	2.5
Construction - multi-family	15,225	1.9	21,327	2.7
Construction - land development	3,190	0.4	—	—
Land	23,662	3.0	23,910	3.0
Total mortgage loans	709,898	89.4	698,107	88.9
Consumer loans:				
Home equity and second mortgage	38,143	4.8	38,420	4.9
Other	3,674	0.4	3,823	0.5
Total consumer loans	41,817	5.2	42,243	5.4
Commercial business loans (2)	43,284	5.4	44,444	5.7
Total loans receivable	794,999	100.0%	784,794	100.0%
Less:				
Undisbursed portion of construction loans in process	65,674		82,411	
Deferred loan origination fees, net	2,469		2,466	
Allowance for loan losses	9,532		9,553	
	77,675		94,430	
Loans receivable, net	$717,324		$690,364	

(1) Does not include one- to four-family loans held for sale totaling $2,321 and $3,515 at June 30, 2018 and September 30, 2017, respectively.
(2) Does not include commercial business loans held for sale totaling $0 and $84 at June 30, 2018 and September 30, 2017, respectively.

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Allowance for Loan Losses

The following tables set forth information for the three and nine months ended June 30, 2018 and 2017 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended June 30, 2018				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,060	$ (33)	$ —	$ —	$ 1,027
Multi-family	386	21	—	—	407
Commercial	4,198	(15)	—	—	4,183
Construction – custom and owner/builder	705	(38)	—	—	667
Construction – speculative one- to four-family	99	34	—	—	133
Construction – commercial	445	74	—	—	519
Construction – multi-family	284	(137)	—	—	147
Construction – land development	48	32	—	—	80
Land	691	64	(16)	5	744
Consumer loans:					
Home equity and second mortgage	945	1	—	—	946
Other	120	2	(1)	—	121
Commercial business loans	563	(5)	—	—	558
Total	$9,544	$ —	$ (17)	$ 5	$ 9,532

	Nine Months Ended June 30, 2018				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,082	$ (55)	$ —	$ —	$ 1,027
Multi-family	447	(40)	—	—	407
Commercial	4,184	27	(28)	—	4,183
Construction – custom and owner/builder	699	(32)	—	—	667
Construction – speculative one- to four-family	128	(6)	—	11	133
Construction – commercial	303	216	—	—	519
Construction – multi-family	173	(26)	—	—	147
Construction – land development	—	80	—	—	80
Land	918	(172)	(16)	14	744
Consumer loans:					
Home equity and second mortgage	983	(37)	—	—	946
Other	121	2	(3)	1	121
Commercial business loans	515	43	—	—	558

Total	$9,553	$ —	$ (47)	$ 26	$ 9,532

	Three Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,126	$ (11)	$ —	$ —	$ 1,115
Multi-family	480	(16)	—	—	464
Commercial	4,316	(1,040)	—	1,061	4,337
Construction – custom and owner/builder	695	17	—	—	712
Construction – speculative one- to four-family	85	(15)	—	5	75
Construction – commercial	268	15	—	—	283
Construction – multi-family	96	36	—	—	132
Land	947	1	(49)	5	904
Consumer loans:					
Home equity and second mortgage	957	(2)	—	—	955
Other	130	6	(2)	—	134
Commercial business loans	490				