

First Savings Financial Group Inc
Form 10-Q
August 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 No. 1-34155

First Savings Financial Group, Inc.
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

37-1567871
(I.R.S. Employer
Identification Number)

501 East Lewis & Clark Parkway, Indiana 47129
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 1-812-283-0724

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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(Check Large Accelerated Accelerated Filer
one): Filer

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

The number of shares outstanding of the registrant's common stock as of July 31, 2011 was 2,365,209.

FIRST SAVINGS FINANCIAL GROUP, INC.

INDEX

Part I	Financial Information	Page
	Item 1. Financial Statements	
	Consolidated Balance Sheets as of June 30, 2011 and September 30, 2010 (unaudited)	3
	Consolidated Statements of Income for the three months and nine months ended June 30, 2011 and 2010 (unaudited)	4
	Consolidated Statements of Cash Flows for the nine months ended June 30, 2011 and 2010 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	6-30
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31-42
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	43-44
	Item 4. Controls and Procedures	45
Part II	Other Information	
	Item 1. Legal Proceedings	46
	Item 1A. Risk Factors	46
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	46
	Item 3. Defaults Upon Senior Securities	47
	Item 4. (Removed and Reserved)	47
	Item 5. Other Information	47
	Item 6. Exhibits	47
	Signatures	48

PART I - FINANCIAL INFORMATION
 FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In thousands, except share and per share data)	June 30, 2011	September 30, 2010
ASSETS		
Cash and due from banks	\$6,647	\$10,184
Interest-bearing deposits with banks	2,289	1,094
Total cash and cash equivalents	8,936	11,278
Securities available for sale, at fair value	121,751	109,976
Securities held to maturity	2,667	3,929
Loans held for sale	-	1,884
Loans, net	352,710	343,615
Federal Home Loan Bank stock, at cost	4,400	4,170
Premises and equipment	10,180	9,492
Foreclosed real estate	948	1,331
Accrued interest receivable:		
Loans	1,506	1,646
Securities	1,070	746
Cash surrender value of life insurance	8,464	8,234
Goodwill	5,940	5,940
Core deposit intangible	2,227	2,447
Other assets	2,795	3,754
Total Assets	\$523,594	\$508,442
LIABILITIES		
Deposits:		
Noninterest-bearing	\$30,725	\$28,853
Interest-bearing	346,584	337,308
Total deposits	377,309	366,161
Repurchase agreements	16,507	16,821
Borrowings from Federal Home Loan Bank	69,411	67,159
Accrued interest payable	413	427
Advance payments by borrowers for taxes and insurance	201	252
Accrued expenses and other liabilities	1,763	2,471
Total Liabilities	465,604	453,291
STOCKHOLDERS' EQUITY		
Preferred stock of \$.01 par value per share		
Authorized 1,000,000 shares; none issued	-	-

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Common stock of \$.01 par value per share		
Authorized 20,000,000 shares; issued 2,542,042 shares	25	25
Additional paid-in capital	24,513	24,310
Retained earnings - substantially restricted	35,080	31,889
Accumulated other comprehensive income	2,814	2,959
Unearned ESOP shares	(1,380)	(1,501)
Unearned stock compensation	(1,007)	(1,202)
Less treasury stock, at cost - 176,833 shares (127,102 shares at September 30, 2010)	(2,055)	(1,329)
Total Stockholders' Equity	57,990	55,151
Total Liabilities and Stockholders' Equity	\$523,594	\$508,442

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
 FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

(In thousands, except share and per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME				
Loans, including fees	\$5,155	\$5,575	\$15,488	\$16,782
Securities:				
Taxable	1,159	742	3,312	2,384
Tax-exempt	244	193	598	424
Dividend income	26	27	84	59
Interest-bearing deposits with banks	8	4	15	13
Total interest income	6,592	6,541	19,497	19,662
INTEREST EXPENSE				
Deposits	970	1,125	3,017	3,674
Repurchase agreements	84	83	241	255
Borrowings from Federal Home Loan Bank	273	267	828	724
Total interest expense	1,327	1,475	4,086	4,653
Net interest income	5,265	5,066	15,411	15,009
Provision for loan losses	435	300	1,074	1,246
Net interest income after provision for loan losses	4,830	4,766	14,337	13,763
NONINTEREST INCOME				
Service charges on deposit accounts	348	405	1,022	1,184
Net gain on sales of securities available for sale	-	34	68	34
Unrealized gain (loss) on derivative contract	(31)	(16)	2	(88)
Net gain on sales of loans	124	29	263	72
Increase in cash surrender value of life insurance	81	64	230	174
Commission income	74	55	160	125
Other income	196	168	531	500
Total noninterest income	792	739	2,276	2,001
NONINTEREST EXPENSE				
Compensation and benefits	2,130	2,638	6,387	6,654
Occupancy and equipment	445	554	1,343	1,638
Data processing	273	530	828	1,263
Advertising	76	81	238	242
Professional fees	141	216	414	540
FDIC insurance premiums	149	177	432	459
Net loss on foreclosed real estate	108	8	340	25
Other operating expenses	734	718	2,145	2,109
Total noninterest expense	4,056	4,922	12,127	12,930

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Income before income taxes	1,566	583	4,486	2,834
Income tax expense	443	83	1,309	742
Net Income	\$1,123	\$500	\$3,177	\$2,092

OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX

Unrealized gain (loss) on securities:

Unrealized holding gains (losses) arising during the period	\$709	\$731	\$(100)	\$1,622
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Less: reclassification adjustment	-	(21)	(45)	(21)
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Unrealized gain (loss) on securities	709	710	(145)	1,601
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Reclassification adjustment - net realized loss

on settlement of pension plan	-	(428)	-	(428)
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Other comprehensive income (loss)	709	282	(145)	1,173
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Comprehensive Income	\$1,832	\$782	\$3,032	\$3,265
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Net Income per common share, basic	\$0.53	\$0.23	\$1.48	\$0.92
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Net Income per common share, diluted	\$0.51	\$0.23	\$1.45	\$0.92
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Dividends per common share	\$-	\$-	\$-	\$0.08
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See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
 FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(In thousands)	Nine Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,177	\$2,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,074	1,246
Depreciation and amortization	678	870
Amortization of premiums and accretion of discounts on securities, net	(151)	77
Mortgage loans originated for sale	(8,721)	(7,439)
Proceeds on sale of loans	10,764	7,353
Gain on sale of loans	(263)	(72)
Net realized and unrealized (gain) loss on foreclosed real estate	204	(113)
Net gain on sales of securities available for sale	(68)	(34)
Unrealized (gain) loss on derivative contract	(2)	88
Increase in cash surrender value of life insurance	(230)	(174)
Deferred income taxes	287	96
ESOP and stock compensation expense	517	333
Increase in accrued interest receivable	(184)	(380)
Decrease in accrued interest payable	(14)	(55)
Change in other assets and liabilities, net	79	290
Net Cash Provided By Operating Activities	7,147	4,178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(39,657)	(71,170)
Proceeds from sales of securities available for sale	3,914	13,640
Proceeds from maturities of securities available for sale	15,853	18,582
Proceeds from maturities of securities held to maturity	303	-
Principal collected on mortgage-backed securities	9,065	12,611
Net (increase) decrease in loans	(10,851)	8,435
Purchase of Federal Home Loan Bank Stock	(351)	-
Proceeds from redemption of Federal Home Loan Bank stock	121	-
Investment in cash surrender value of life insurance	-	(4,200)
Proceeds from sale of foreclosed real estate	951	788
Purchase of premises and equipment	(1,146)	(258)
Net Cash Used In Investing Activities	(21,798)	(21,572)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	11,148	13,782
Net decrease in federal funds purchased	-	(1,180)
Net decrease in repurchase agreements	(314)	(314)
Increase (decrease) in Federal Home Loan Bank line of credit	(667)	1,596

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Proceeds from Federal Home Loan Bank advances	105,000	92,439
Repayment of Federal Home Loan Bank advances	(102,081)	(85,758)
Net decrease in advance payments by borrowers for taxes and insurance	(51)	(173)
Purchase of treasury stock	(726)	(1,329)
Purchase of common shares for restricted stock grants	-	(1,388)
Dividends paid	-	(193)
Net Cash Provided By Financing Activities	12,309	17,482
Net Increase (Decrease) in Cash and Cash Equivalents	(2,342)	88
Cash and cash equivalents at beginning of period	11,278	10,404
Cash and Cash Equivalents at End of Period	\$8,936	\$10,492

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Presentation of Interim Information

First Savings Financial Group, Inc. (“Company”), an Indiana corporation, was incorporated in May 2008 to serve as the holding company for First Savings Bank, F.S.B. (“Bank”), a federally-chartered savings bank. On October 6, 2008, in accordance with a Plan of Conversion adopted by its board of directors and approved by its members, the Bank converted from a mutual savings bank to a stock savings bank and became the wholly-owned subsidiary of the Company. In connection with the conversion, the Company issued an aggregate of 2,542,042 shares of common stock at an offering price of \$10.00 per share. In addition, in connection with the conversion, First Savings Charitable Foundation was formed, to which the Company contributed 110,000 shares of common stock and \$100,000 in cash. The Company’s common stock began trading on the Nasdaq Capital Market on October 7, 2008 under the symbol “FSFG”.

The Bank has three-wholly owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio, Southern Indiana Financial Corporation, which sells non-deposit investment products, and FFCC, Inc., which is currently inactive.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of June 30, 2011, the results of operations for the three- and nine-month periods ended June 30, 2011 and 2010 and the cash flows for the nine-month periods ended June 30, 2011 and 2010. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company’s audited consolidated financial statements and related notes for the year ended September 30, 2010 included in the Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Investment Securities

Investment securities have been classified according to management's intent. The amortized cost of securities and their fair values are as follows:

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011:				
Securities available for sale:				
Agency bonds and notes	\$ 24,769	\$ 173	\$ 43	\$ 24,899
Agency mortgage-backed	14,715	439	-	15,154
Agency CMO	23,600	361	18	23,943
Privately-issued CMO	10,091	2,513	155	12,449
Municipal	44,060	1,316	157	45,219
Subtotal – debt securities	117,235	4,802	373	121,664
Equity securities	-	87	-	87
Total securities available for sale	\$ 117,235	\$ 4,889	\$ 373	\$ 121,751
Securities held to maturity:				
Agency mortgage-backed	\$ 2,667	\$ 192	\$ -	\$ 2,859
Total securities held to maturity	\$ 2,667	\$ 192	\$ -	\$ 2,859
September 30, 2010:				
Securities available for sale:				
Agency bonds and notes	\$ 25,510	\$ 196	\$ 1	\$ 25,705
Agency mortgage-backed	13,944	226	29	14,141
Agency CMO	22,325	224	61	22,488
Privately-issued CMO	10,342	2,418	72	12,688
Municipal	33,109	1,920	152	34,877
Subtotal – debt securities	105,230	4,984	315	109,899
Equity securities	-	77	-	77
Total securities available for sale	\$ 105,230	\$ 5,061	\$ 315	\$ 109,976
Securities held to maturity:				
Agency mortgage-backed	\$ 3,625	\$ 211	\$ -	\$ 3,836
Municipal	304	4	-	308
Total securities held to maturity	\$ 3,929	\$ 215	\$ -	\$ 4,144

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Agency bonds and notes, agency mortgage-backed securities and agency collateralized mortgage obligations (“CMO”) include securities issued by the Government National Mortgage Association (“GNMA”), a U.S. government agency, and the Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal Home Loan Bank (“FHLB”), which are U.S. government-sponsored enterprises. Privately-issued CMO are complex securities issued by special-purpose entities that are generally collateralized by first position residential mortgage loans and first position residential home equity loans.

The amortized cost and fair value of investment securities as of June 30, 2011 by contractual maturity are shown below. Expected maturities of mortgage-backed securities and CMO may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	\$ 412	\$ 411	\$ -	\$ -
Due after one year through five years	3,995	3,979	-	-
Due after five years through ten years	6,895	7,070	-	-
Due after ten years	57,527	58,658	-	-
	68,829	70,118	-	-
Equity securities	-	87	-	-
CMO	33,691	36,392	-	-
Mortgage-backed securities	14,715	15,154	2,667	2,859
	\$ 117,235	\$ 121,751	\$ 2,667	\$ 2,859

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Information pertaining to available for sale securities with gross unrealized losses at June 30, 2011, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions	Fair Value (Dollars in thousands)	Gross Unrealized Losses
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency bonds and notes	4	\$ 4,456	\$ 43
Agency CMO	1	2,111	18
Privately-issued CMO	3	908	84
Municipal bonds	7	2,925	29
	15	10,400	174
Continuous loss position more than twelve months:			
Privately-issued CMO	3	172	71
Municipal bonds	1	1,821	128
	4	1,993	199
Total securities available for sale	19	\$ 12,393	\$ 373

At June 30, 2011, the Company did not have any securities held to maturity with an unrealized loss.

Management 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 (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The total available for sale debt securities in loss positions at June 30, 2011 have depreciated approximately 2.9% from their amortized cost basis and had a weighted-average yield of 4.11% and a weighted-average coupon rate of 3.73%.

U.S. government agency debt securities, including mortgage-backed securities and CMO securities, and municipal bonds in loss positions at June 30, 2011 had depreciated approximately 1.9% from their amortized cost basis. All of the U.S. government agency and municipal securities are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The unrealized losses on U.S. government agency and municipal securities relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities to maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

At June 30, 2011, the six privately-issued CMO securities in loss positions had depreciated approximately 12.5% from the amortized cost basis and include securities collateralized by home equity lines of credit or other mortgage-related loan products. Two of the these securities continued to be rated by a nationally recognized statistical rating organization as investment grade assets and the remaining four securities have fair values totaling \$970,000 and unrealized losses of \$129,000 at June 30, 2011.

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO portfolio each quarter using an independent third party analysis. At June 30, 2011, the Company held nineteen privately-issued CMO securities with an aggregate amortized cost of \$5.5 million and fair value of \$7.1 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies. Based on the independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment was recognized on the privately-issued CMO portfolio during the three and nine months ended June 30, 2011. While there was no credit-related impairment loss at June 30, 2011, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

During the nine months ended June 30, 2011, the Company realized gross gains on sales of available for sale municipal securities of \$68,000. The Company had no realized gains on sales of available for sale securities during the three months ended June 30, 2011. The Company realized net gains on sales of available for sale securities of \$34,000 for the three and nine months ended June 30, 2010.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Loans and Allowance for Loan Losses

Loans at June 30, 2011 and September 30, 2010 consisted of the following:

	June 30, 2011	September 30, 2010
(In thousands)		
Real estate mortgage:		
1-4 family residential	\$ 173,626	\$ 172,007
Multi-family residential	24,887	20,360
Commercial	68,534	53,869
Residential construction	6,486	15,867
Commercial construction	3,048	9,851
Land and land development	12,828	9,076
Commercial business loans	38,826	30,905
Consumer:		
Home equity loans	15,779	16,335
Auto loans	10,503	13,405
Other consumer loans	4,962	7,030
Gross loans	359,479	348,705
Deferred loan origination fees and costs, net	620	778
Undisbursed portion of loans in process	(2,942)	(2,057)
Allowance for loan losses	(4,447)	(3,811)
Loans, net	\$ 352,710	\$ 343,615

During the nine-month period ended June 30, 2011, there was no significant change in the Company's lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table provides the components of the recorded investment in loans for each portfolio class as of June 30, 2011:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	\$ 173,626	\$ 68,534	\$ 24,887	\$ 6,592	\$ 12,828	\$ 38,826	\$ 31,244	\$ 356,537
Accrued interest receivable	678	330	93	20	73	189	123	1,506
Net deferred loan origination fees and costs	662	(35)	(1)	(4)	(2)	(35)	35	620
Recorded investment in loans	\$ 174,966	\$ 68,829	\$ 24,979	\$ 6,608	\$ 12,899	\$ 38,980	\$ 31,402	\$ 358,663
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 5,021	\$ 1,989	\$ -	\$ 287	\$ 340	\$ 16	\$ 222	\$ 7,875
Collectively evaluated for impairment	169,171	66,276	24,979	6,321	12,559	38,964	31,140	349,410
Acquired with deteriorated credit quality	774	564	-	-	-	-	40	1,378
Ending balance	\$ 174,966	\$ 68,829	\$ 24,979	\$ 6,608	\$ 12,899	\$ 38,980	\$ 31,402	\$ 358,663

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

An analysis of the allowance for loan losses as of and for the three and nine months ended June 30, 2011 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Development	Commercial Business	Consumer	Unallocated	Total
	(In thousands)								
Changes in Allowance for Loan Losses for the three-months ended June 30, 2011:									
B e g i n n i n g									
balance	\$ 1,236	\$ 880	\$ 554	\$ 145	\$ 37	\$ 961	\$ 344	\$ -	\$ 4,157
Provisions	(203)	210	135	(91)	57	193	134	-	435
Charge-offs	(177)	-	-	-	-	(19)	(117)	-	(313)
Recoveries	-	-	-	-	-	153	15	-	168
Ending balance	\$ 856	\$ 1,090	\$ 689	\$ 54	\$ 94	\$ 1,288	\$ 376	\$ -	\$ 4,447
Changes in Allowance for Loan Losses for the nine-months ended June 30, 2011:									
B e g i n n i n g									
balance	\$ 1,242	\$ 600	\$ 369	\$ 218	\$ 62	\$ 891	\$ 429	\$ -	\$ 3,811
Provisions	15	495	320	(156)	32	255	113	-	1,074
Charge-offs	(414)	(5)	-	(8)	-	(72)	(211)	-	(710)
Recoveries	13	-	-	-	-	214	45	-	272
Ending balance	\$ 856	\$ 1,090	\$ 689	\$	\$	\$	\$	\$	\$