Magyar Bancorp, Inc.
Form 10KSB
December 29, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

þ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2008
OR
o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission File Number: 000-51726

Magyar Bancorp, Inc.
(Name of Small Business Issuer in its Charter)

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

(732) 342-7600
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The Registrant's revenues for the fiscal year ended September 30, 2008 were $30.4 million.

The aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of the Common Stock as of December 18, 2008 was $15.8 million. As of December 18, 2008, there were 5,923,742 shares issued and 5,749,741 outstanding of the Registrant's Common Stock, including 3,200,450 shares owned by Magyar Bancorp, MHC, the Registrant's mutual holding company.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2008 Annual Meeting of Stockholders (Part III)

Transitional Small Business Disclosure Format (check one):

Yes o No þ

Magyar Bancorp, Inc.
Annual Report On Form 10-KSB
For The Fiscal Year Ended
September 30, 2008

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PART I

ITEM 1. Description of Business

Forward Looking Statements

This Annual Report contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements i but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services.

Magyar Bancorp, MHC

Magyar Bancorp, MHC is the New Jersey-chartered mutual holding company of Magyar Bancorp, Inc. Magyar Bancorp, MHC’s only business is the ownership of 54.03% of the issued shares of common stock of Magyar Bancorp, Inc. So long as Magyar Bancorp, MHC exists, it will be required to own a majority of the voting stock of Magyar Bancorp, Inc. The executive office of Magyar Bancorp, MHC is located at 400 Somerset Street, New Brunswick, New Jersey 08903, and its telephone number is (732) 342-7600. Magyar Bancorp, MHC is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

Magyar Bancorp, Inc.

Magyar Bancorp, Inc. is the mid-tier stock holding company of Magyar Bank. Magyar Bancorp, Inc. is a Delaware chartered corporation and owns 100% of the outstanding shares of common stock of Magyar Bank. Magyar Bancorp, Inc. has not engaged in any significant business activity other than owning all of the shares of common stock of Magyar Bank. At September 30, 2008, Magyar Bancorp, Inc. had consolidated assets of $514.3 million, total deposits of $375.6 million and stockholders’ equity of $45.8 million. Magyar Bancorp, Inc.’s net loss for the fiscal year ended September 30, 2008 was $2.9 million. The executive offices of Magyar Bancorp, Inc. are located at 400 Somerset Street, New Brunswick, New Jersey 08903, and its telephone number is (732) 342-7600. Magyar Bancorp, Inc. is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

On January 23, 2006, Magyar Bancorp, Inc. sold 2,618,550 shares of its common stock at a price of $10.00 per share, issued an additional 3,200,450 shares of its common stock to Magyar Bancorp, MHC, and contributed 104,742 shares to MagyarBank Charitable Foundation.

Magyar Bank

Magyar Bank is a New Jersey-chartered savings bank headquartered in New Brunswick, New Jersey that was originally founded in 1922 as a New Jersey building and loan association. In 1954, Magyar Bank converted to a New Jersey savings and loan association, before converting to the New Jersey savings bank charter in 1993. We conduct business from our main office located at 400 Somerset Street, New Brunswick, New Jersey, and our five branch offices located in New Brunswick, North Brunswick, South Brunswick and Branchburg, New Jersey. The telephone number at our main office is (732) 342-7600.

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General

Our principal business consists of attracting retail deposits from the general public in the areas surrounding our main office in New Brunswick, New Jersey and our branch offices located in Middlesex and Somerset Counties, New Jersey, and investing those deposits, together with funds generated from operations and wholesale funding, in residential mortgage loans, home equity loans, home equity lines of credit, commercial real estate loans, commercial business loans, construction loans and investment securities. We also originate consumer loans, which consist primarily of secured demand loans. We originate loans primarily for our loan portfolio. However, from time to time we have sold some of our long-term fixed-rate residential mortgage loans into the secondary market, while retaining the servicing rights for such loans. Our revenues are derived principally from interest on loans and securities. Our investment securities consist primarily of mortgage-backed securities and U.S. Government and government-sponsored enterprise obligations. We also generate revenues from fees and service charges. Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities. We are subject to comprehensive regulation and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

Market Area

We are headquartered in New Brunswick, New Jersey, and our primary deposit market area is concentrated in the communities surrounding our headquarters branch and our branch offices located in Middlesex and Somerset Counties, New Jersey. Our primary lending market area is broader than our deposit market area and includes all of New Jersey. At September 30, 2008, 43.5% of our mortgage loan portfolio consisted of loans secured by real estate located in Middlesex and Somerset Counties in New Jersey.

The economy of our primary market area is diverse. It is largely urban and suburban with a broad economic base that is typical for counties surrounding the New York metropolitan area. Middlesex and Somerset Counties are projected to experience moderate population and household growth through 2010. These counties have an aging population base with the strongest growth projected in the 55-and-older age group and $50,000 or greater household income category.

Competition

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. According to the Federal Deposit Insurance Corporation's annual Summary of Deposit report, at June 30, 2008 our market share of deposits was 1.91% and 0.15% of deposits Middlesex and Somerset Counties, respectively.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

We originate residential mortgage loans to purchase or refinance residential real property. Residential mortgage loans represented $157.9 million, or 38.4% of our total loans at September 30, 2008. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage interest rate risk and to increase fee income, we may increase our origination and sale of residential mortgage loans. No loans were held for sale at September 30, 2008. We also originate commercial real estate, commercial business and construction loans. At September 30, 2008, these

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loans totaled $92.8 million, $36.0 million and $92.9 million, respectively. We also offer consumer loans, which consist primarily of home equity lines of credit and stock-secured demand loans. At September 30, 2008, home equity lines of credit and stock-secured demand loans totaled $15.9 million and $15.3 million, respectively.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated.

	September 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
One-to four-family residential	$ 157,867	38.44%	$ 152,474	39.54%	$ 143,245	40.65%	$ 126,269	46.64%	$ 108,722	55.50%
Commercial real estate	92,823	22.60%	81,275	21.08%	68,567	19.46%	57,366	21.19%	19,935	10.18%
Construction	92,856	22.61%	97,150	25.20%	90,342	25.64%	44,418	16.41%	5,526	2.82%
Home equity lines of credit	15,893	3.87%	12,894	3.34%	10,843	3.08%	10,398	3.84%	9,065	4.63%
Commercial business	35,995	8.76%	26,630	6.91%	24,510	6.96%	17,413	6.43%	27,698	14.14%
Other	15,294	3.72%	15,159	3.93%	14,846	4.21%	14,862	5.49%	24,964	12.74%
Total loans receivable	$ 410,728	100.00%	$ 385,582	100.00%	$ 352,353	100.00%	$ 270,726	100.00%	$ 195,910	100.00%
Net deferred loan fees	(77)		(214)		(492)		(280)		(19)	
Allowance for loan losses	(4,502)		(3,754)		(3,892)		(3,129)		(2,341)	
Total loans receivable, net	$ 406,149		$ 381,614		$ 347,969		$ 267,317		$ 193,550	

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2008. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

Due During the Fiscal Years Ending September 30,	One-to-Four Family Residential		Commercial Real Estate		Construction		Home Equity Lines of Credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							

2009	$ 3,152	5.38%	$ 14,694	6.83%	$ 81,541	6.45%	$ 3,071	6.74%
2010	790	5.86%	633	5.22%	11,052	6.53%	5	6.50%
2011	601	6.68%	3,216	6.41%	263	6.00%	-	-
2012 to 2013	5,228	5.61%	511	7.97%	-	-	30	5.00%
2014 to 2018	17,535	5.49%	9,397	6.44%	-	-	33	6.00%
2019 to 2022	12,209	5.42%	3,898	6.93%	-	-	162	5.00%
2023 and beyond	118,352	5.81%	60,474	6.97%	-	-	12,592	4.57%
Total	$ 157,867	5.73%	$ 92,823	6.87%	$ 92,856	6.46%	$ 15,893	5.00%

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Due During the Fiscal Years Ending September 30,	Commercial Business Amount	Commercial Business Weighted Average Rate	Other Amount	Other Weighted Average Rate	Total Amount	Total Weighted Average Rate
	(Dollars in thousands)					
2009	$ 18,967	5.46%	$ 14,673	3.99%	$ 136,098	6.07%
2010	509	6.57%	25	12.01%	13,014	6.44%
2011	1,914	7.18%	20	13.70%	6,014	6.69%
2012 to 2013	3,982	6.36%	117	8.59%	9,868	6.07%
2014 to 2018	4,768	7.10%	54	5.54%	31,787	6.01%
2019 to 2022	697	7.93%	1	13.00%	16,967	5.86%
2023 and beyond	5,158	7.02%	404	5.53%	196,980	6.12%
Total	$ 35,995	6.15%	$ 15,294	4.10%	$ 410,728	6.10%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2008 that are contractually due after September 30, 2009.

	Due After September 30, 2009 Fixed	Adjustable	Total
	(Dollars in thousands)		
One-to four-family residential	$ 101,007	$ 53,708	$ 154,715
Commercial real estate	10,528	67,601	78,129
Construction	-	11,315	11,315
Home equity lines of credit	33	12,789	12,822
Commercial business	8,212	8,816	17,028
Other	123	498	621
Total	$ 119,903	$ 154,727	$ 274,630

Residential Mortgage Loans. We originate residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At September 30, 2008, $157.9 million, or 38.4% of our total loan portfolio, consisted of residential mortgage loans (including home equity loans). Residential mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, through advertising, and through referrals from local builders, real estate brokers and attorneys, and are underwritten pursuant to Magyar Bank's policies and standards. Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, with private mortgage insurance required on loans with a loan-to-value ratio in excess of 80%. We generally will not make residential mortgage loans with a loan-to-value ratio in excess of 97%, which is the upper limit that has been established by the Board of Directors. Mortgage loans have been originated for terms of up to 30 years and are currently offered for terms up to 40 years. Magyar Bank has not participated in “sub-prime” (mortgages granted to borrowers whose credit history is not sufficient to get a conventional mortgage) or option ARM mortgage lending. At September 30, 2008, non-accrual residential mortgage loans totaled $772,000, or 0.19% of the total loans receivable. Interest income not recorded on these loans at September 30, 2008 was $18,000. During the year ended September 30, 2008, $31,000 had been charged-off against the allowance for loan loss for one impaired residential real estate loan.

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We also originate home equity loans secured by residences located in our market area. The underwriting standards we use for home equity loans include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations, the ongoing payments on the proposed loan and the value of the collateral securing the loan. The maximum combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is 90%. Home equity loans are generally offered with fixed rates of interest with the loan amount not to exceed $500,000 and with terms of up to 30 years.

Generally, all fixed-rate residential mortgage loans are underwritten according to Freddie Mac guidelines, policies and procedures. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage interest rate risk and to increase fee income, we may increase our origination and sale of fixed-rate residential mortgage loans. No loans were held for sale at September 30, 2008.

We generally do not purchase residential mortgage loans, except for loans to low-income borrowers to enhance our Community Reinvestment Act performance. At September 30, 2008, we had $5.4 million of purchased one-to four-family residential mortgage loans. No loans were purchased in the fiscal year ended September 30, 2008.

At September 30, 2008, we had $101.7 million of fixed-rate residential mortgage loans, which represented 64.4% of our total residential mortgage loan portfolio. At September 30, 2008, our largest fixed-rate residential mortgage loan was for $4.6 million. The loan was performing in accordance with its terms at September 30, 2008.

We also offer adjustable-rate residential mortgage loans with interest rates based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year, which adjusts either annually from the outset of the loan or which adjusts annually after a one-, three-, five-, seven-, and ten-year initial fixed-rate period. Our adjustable-rate mortgage loans generally provide for maximum rate adjustments of 2% per adjustment, with a lifetime maximum adjustment up to 5%, regardless of the initial rate. We also offer adjustable-rate mortgage loans with an interest rate based on the prime rate as published in The Wall Street Journal or the Federal Home Loan Bank of New York advance rates.

Adjustable-rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing. However, these loans have other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. The maximum periodic and lifetime interest rate adjustments also may limit the effectiveness of adjustable-rate mortgage loans during periods of rapidly rising interest rates.

At September 30, 2008, adjustable-rate residential mortgage loans totaled $56.2 million, or 35.6% of our total residential mortgage loan portfolio. Of these loans, $18.4 million were interest-only loans originated with an average original loan-to-value of 69.3%. Interest-only loans allow the borrower to make interest–only payments during an initial fixed-rate period. Following the initial period, the borrower is required to make principal and interest payments. At September 30, 2008, our largest adjustable-rate residential mortgage loan was for $1.2 million. The loan was performing in accordance with its terms at September 30, 2008.

In an effort to provide financing for low-and moderate-income home buyers, we offer low-to-moderate income residential mortgage loans. These loans are offered with fixed rates of interest and terms of up to 40 years, and are secured by one-to four-family residential properties. All of these loans are originated using underwriting guidelines of U.S. government-sponsored enterprises such as Freddie Mac or Fannie Mae. These loans are originated with maximum loan-to-value ratios of 97%, which is higher than the maximum loan-to-value ratios of our standard one- to four-family mortgage loans.

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All residential mortgage loans we originate include “due-on-sale” clauses, which give us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property securing the mortgage loan. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, we have continued our focus on increasing our originations of commercial real estate loans. At September 30, 2008, $92.8 million, or 22.6%, of our total loan portfolio consisted of these types of loans. Commercial real estate loans are generally secured by five-or-more-unit apartment buildings, industrial properties and properties used for business purposes such as small office buildings and retail facilities primarily located in our market area. We generally originate adjustable-rate commercial real estate loans with a maximum term of 25 years, provided adjustable rate periods limit the initial payment period to no more than five years. The maximum loan-to-value ratio for our commercial real estate loans is 75%, based on the appraised value of the property.

We consider a number of factors when we originate commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower’s experience in owning or managing similar property and the borrower’s payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service. We require personal guarantees on all commercial real estate loans made to individuals. Generally, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the principals. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

Loans secured by commercial real estate generally are larger than residential mortgage loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

The maximum amount of a commercial real estate loan is limited by our Board-established loans-to-one-borrower limit, which is currently 15% of Magyar Bank’s capital, or $6.7 million. At September 30, 2008, our largest commercial real estate loan was $5.5 million and was secured by multiple office buildings. The loan was performing in accordance with its terms at September 30, 2008. At September 30, 2008, two loans in the amount of $3.4 million were on non-accrual status. During the year ended September 30, 2008, $30,000 had been charged-off against the allowance for loan loss for the two impaired commercial real estate loans. Interest income not recorded on impaired loans for the year ended September 30, 2008 was $414,000. All other loans secured by commercial real estate were performing in accordance with their terms.

Construction Loans. We also originate construction loans for the development of one-to four-family homes, townhomes, condominiums, apartment buildings and commercial properties. Construction loans are generally offered to experienced local developers operating in our primary market area and to individuals for the construction of their personal residences.

At September 30, 2008, construction loans for the development of one-to four-family residential properties totaled $46.0 million, or 11.2% of total loans. These construction loans generally have a maximum term of 24 months. We provide financing for land acquisition, site improvement and construction of individual homes. Land acquisition funds are limited to 50% to 75% of the sale price of the land. Site improvement funds

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are limited to 100% of the bonded site improvement costs. Construction funds are limited to 75% of the lesser of the contract sale price or appraised value of the property (less funds already advanced for land acquisition and site improvement).

At September 30, 2008, construction loans for the development of townhomes, condominiums and apartment buildings totaled $34.9 million, or 8.5% of total loans. These construction loans also generally have a maximum term of 24 months. We generally require that a commitment for permanent financing be in place prior to closing construction loans. The maximum loan-to-value ratio limit applicable to these loans has been 75% of the appraised value of the property, but was decreased to 70% in 2007 to reduce Magyar Bank’s potential exposure to a downtown in the real estate market. Properties must maintain a debt service coverage ratio of 120%. Finally, we may retain up to 10% of each loan advance until the property attains a 90% occupancy level.

At September 30, 2008, construction loans for the development of commercial properties totaled $12.0 million, or 2.9% of total loans. These construction loans have a maximum term of 36 months. The maximum loan-to-value ratio limit applicable to these loans is 75% of the appraised value of the property. In addition, the property must maintain a debt service coverage ratio of 120%.

The maximum amount of a construction loan is limited by our loans-to-one-borrower limit, which is currently 15% of Magyar Bank’s capital, or $6.7 million. At September 30, 2008, our largest outstanding construction loan balance was for $3.4 million. The loan was secured by a single-family home development in North Brunswick, New Jersey. The loan was performing according to its terms at September 30, 2008. At September 30, 2008, twelve construction loans totaling $14.9 million (see Item 6. Management’s Discussion and Analysis or Plan of Operations for details on these loans), were considered non-performing and impaired. During the year ended September 30, 2008, $3.1 million had been charged-off against the allowance for loan loss for the impaired construction loans. Interest income not recorded on impaired loans at September 30, 2008 was $276,000.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also engage an outside engineering firm to review and inspect each property before disbursement of funds during the term of a construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. We require a personal guarantee from each principal of all of our construction loan borrowers.

Construction lending is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if our estimate of the value of the completed property is inaccurate, our construction loan may exceed the value of the collateral.

Commercial Business Loans. At September 30, 2008, our commercial business loans totaled $36.0 million, or 8.8% of total loans. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small and mid-sized businesses. Our commercial business loans include term loans and revolving lines of credit. The maximum term of a commercial business loan is 15 years. Such loans are generally used for longer-term working capital purposes such as purchasing equipment or furniture. Commercial business loans are made with either adjustable or fixed rates of interest. The interest rates for adjustable commercial business loans are based on the prime rate as published in The Wall Street Journal.

When making commercial business loans, we consider the financial strength of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value and type of the collateral. Commercial business loans generally are secured by a variety

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of collateral, primarily accounts receivable, inventory, equipment, savings instruments and readily marketable securities. In addition, we generally require the business principals to execute personal guarantees.

Commercial business loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to repay the loan from his or her employment income, and which are secured by real property with ascertainable value, commercial business loans generally are made on the basis of the borrower's ability to repay the loan from the cash flow of the borrower's business. As a result, the repayment of commercial business loans may depend substantially on the success of the borrower's business. Further, any collateral securing commercial business loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We try to minimize these risks through our underwriting standards. The maximum amount of a commercial business loan is limited by our loans-to-one-borrower limit, which is 15% of Magyar Bank's capital, or $6.7 million currently. At September 30, 2008, our largest commercial business loan was a $1.9 million loan to a company that provides janitorial services and was secured by the accounts receivable of the company. This loan was performing according to its terms at September 30, 2008. At September 30, 2008, all of our commercial business loans were performing in accordance with their terms with the exception of one loan totaling $176,000. Interest income not recorded on this loan at September 30, 2008 was $8,000. During the year ended September 30, 2008, $227,000 had been charged-off against the allowance for loan loss for impaired commercial business loans.

Home Equity Lines of Credit and Other Loans. We originate home equity lines of credit secured by residences located in our market area. At September 30, 2008, these loans totaled $15.9 million, or 3.9% of our total loan portfolio. The underwriting standards we use for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations, the ongoing payments on the proposed loan and the value of the collateral securing the loan. The maximum combined (first and second mortgage liens) loan-to-value ratio for home equity lines of credit is 90%. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in The Wall Street Journal, with terms of up to 25 years.

The maximum amount of a home equity line of credit loan is limited by our loans-to-one-borrower limit, which is 15% of Magyar Bank's capital, or $6.7 million currently. At September 30, 2008, our largest home equity line of credit was a $995,000 loan. This loan was performing according to its terms at September 30, 2008. At September 30, 2008, all of our home equity lines of credit were performing in accordance with their terms with the exception of one loan totaling $731,000, or 0.18% of the total loans receivable.. During the year ended September 30, 2008, $69,000 had been charged-off against the allowance for loan loss for the impaired home equity line of credit. Interest income not recorded on this loan at September 30, 2008 was $27,000.

We also originate loans secured by the common stock of publicly traded companies, provided their shares are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market, and provided the company is not a banking company. Stock-secured loans are interest-only and are offered for terms up to twelve months and for adjustable rates of interest indexed to the prime rate, as reported in The Wall Street Journal. The loan amount is not to exceed 70% of the value of the stock securing the loan at any time.

At September 30, 2008, stock-secured loans totaled $14.7 million, or 3.6% of our total loan portfolio. Generally, we limit the aggregate amount of loans secured by the common stock of any one corporation to 15% of Magyar Bank's capital, with the exception of Johnson & Johnson, for which the collateral concentration limit is 150% of Magyar Bank's capital. At September 30, 2008, $14.6 million, or 3.6% of our loan portfolio, was secured by the common stock of Johnson & Johnson, a New York Stock Exchange company that operates a number of facilities in our market area and employs a substantial number of residents. Although these loans are underwritten based on the ability of the individual borrower to repay the loan, the concentration of our portfolio secured by this stock subjects us to the risk of a decline in the market price of the stock and, therefore, a

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reduction in the value of the collateral securing these loans. As of September 30, 2008, the aggregate loan-to-value ratio of the stock-secured portfolio was 40.0%.

Loan Originations, Purchases, Participations and Servicing of Loans. Lending activities are conducted primarily by our loan personnel operating at our main and branch office locations. All loans originated by us are underwritten pursuant to our policies and procedures. We originate both adjustable rate and fixed rate loans. Our ability to originate fixed or adjustable rate loans is dependent upon the relative customer demand for such loans, which is affected by the current and expected future levels of market interest rates.

Generally, we retain in our portfolio substantially all loans that we originate. Historically, we have not originated a significant number of loans for the purpose of reselling them in the secondary market. In the future, however, to help manage our interest rate risk and to increase fee income, we may increase our origination and sale of fixed-rate residential loans. All one-to four-family residential mortgage loans that we sell in the secondary market are sold with servicing rights retained pursuant to master commitments negotiated with Freddie Mac. We sell our loans without recourse. No loans were held for sale at September 30, 2008.

At September 30, 2008, we were servicing loans sold in the amount of $2.3 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

From time-to-time, we will also participate in loans, sometimes as the “lead lender.” Whether we are the lead lender or not, we underwrite our participation portion of the loan according to our own underwriting criteria and procedures. At September 30, 2008, we had $18.4 million of loan participation interests in which we were the lead lender, and $6.4 million in loan participations in which we were not the lead lender. We have entered into loan participations when the aggregate outstanding balance of a particular customer relationship exceeds our loan-to-one-borrower limit. All loan participations are loans secured by real estate that adhere to our loan policies. We have not experienced any loan losses in our loan participations portfolio.

During the fiscal year ended September 30, 2008, we originated $35.7 million of fixed-rate and adjustable-rate one- to four-family residential mortgage loans. The fixed-rate loans are primarily of loans with terms of 30 years or less. We also originated $29.4 million of commercial real estate, $4.8 million of construction loans, and $18.2 million of commercial business loans during the fiscal year ended September 30, 2008.

We generally do not purchase residential mortgage loans, except for loans to low-income borrowers as part of our Community Reinvestment Act lenders program. At September 30, 2008, we had $5.4 million of one-to four-family residential mortgage loans that were purchased from other lenders. No loans were purchased in the fiscal year ended September 30, 2008.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for loans, we assess the borrower’s ability to repay the loan and the value of the property securing the loan. To assess an individual borrower’s ability to repay, we review income and expense, employment and credit history. To assess a business entity’s ability to repay, we review financial statements (including balance sheets, income statements and cash flow statements), rent rolls, other debt service, and projected income and expense.

We generally require appraisals for all real estate securing loans. Appraisals are performed by independent licensed appraisers who are approved annually by our Board of Directors. We require borrowers to obtain title, fire and casualty, general liability, and, if warranted, flood insurance in amounts at least equal to the principal amount of the loan. For construction loans, we require a detailed plan and cost review, to be reviewed

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by an outside engineering firm, and all construction-related state and local approvals necessary for a particular project.

Our loan approval policies and limits are established by our Board of Directors. All loans are approved in accordance with the loan approval policies and limits. Lending authorities are approved annually by the Board of Directors, and Magyar Bank lending staff members are authorized to approve loans up to their lending authority limits, provided the loan meets all of our underwriting guidelines.

Loan requests for aggregate borrowings up to $1.5 million must be approved by Magyar Bank's Chief Lending Officer or President. Other members of our lending staff have lesser amounts of lending authority based on their experience as lending officers. Loan requests for aggregate borrowings up to 35% of Magyar Bank's loans-to-one-borrower limit, or $2.3 million, must be approved by Magyar Bank's Management Loan Committee. The Management Loan Committee is comprised of the President, Chief Lending Officer, Chief Financial Officer and various bank officers appointed by the Board of Directors. A quorum of three members including either the President or the Chief Lending Officer is required for all Management Loan Committee meetings. The Directors Loan Committee must approve all loan requests for aggregate borrowings in excess of 35% of Magyar Bank's loans-to-one-borrower limit, or $2.3 million. The Board of Directors must approve all loan requests for aggregate borrowings in excess of 80% of Magyar Bank's loans-to-one-borrower limit, or $5.3 million.

Asset Quality

We commence collection efforts when a loan becomes 15 days past due with system-generated reminder notices. Subsequent late charge and delinquent notices are issued and the account is monitored on a regular basis thereafter. Personal, direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are placed on non-accrual status when they are delinquent for more than three months. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received.

A summary report of all loans 30 days or more past due is provided to the Board of Directors on a monthly basis. If no repayment plan is in process, the file is referred to counsel for the commencement of foreclosure or other collection efforts.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At each date presented, we had no troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

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	September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Non-accrual loans:					
One-to four-family residential	$ 772	$ 65	$ 56	$ 188	$ 153
Commercial real estate	3,400	1,936	-	-	-
Construction	8,224	6,008	5,135	-	-
Home equity lines of credit	731	-	-	-	-
Commercial business	176	21	188	387	94
Other	-	3	-	2	-
Total	13,303	8,033	5,379	577	247
Accruing loans three months or more past due:					
One-to four-family residential	65	-	88	205	-
Commercial real estate	-	-	1,933	257	-
Construction	6,700	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Commercial business	-	15	-	-	-
Other	-	-	-	1	-
Total loans three months or more past due	6,765	15	2,021	463	-
Total non-performing loans	$ 20,068	$ 8,048	$ 7,400	$ 1,040	$ 247
Other real estate owned	4,666	2,238	-	-	-
Other non-performing assets	-	-	-	-	-
Total non-performing assets	$ 24,734	$ 10,286	$ 7,400	$ 1,040	$ 247
Ratios:					
Total non-performing loans to total loans	4.89%	2.09%	2.10%	0.38%	0.13%
Total non-performing loans to total assets	3.90%	1.70%	1.70%	0.29%	0.09%
Total non-performing assets to total assets	4.81%	2.17%	1.70%	0.29%	0.09%

At September 30, 2008, our portfolio of commercial business, commercial real estate and construction loans totaled $221.7 million, or 54.0% of our total loans, compared to $205.1 million, or 53.2% of our total loans, at September 30, 2007. Commercial business, commercial real estate and construction loans generally have more risk than one-to four-family residential mortgage loans. As shown in the table above, at September 30, 2008, our non-performing assets increased to $24.7 million from $10.3 million at September 30, 2007 and $7.4 million at September 30, 2006, reflecting our increased originations of these loans (See Item 6. - Management's Discussion and Analysis or Plan of Operation for additional discussion of non-performing assets).

Additional interest income of approximately $743,000 and $885,000 would have been recorded during the fiscal years ended September 30, 2008 and 2007, respectively, if the non-accrual loans summarized in the above table had performed in accordance with their original terms.

The Company accounts for its impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", as amended. This standard requires that a creditor measure impairment

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based on the present value of expected future cash flows discounted at the loan's effective interest rate except that, as a practical expedient, a creditor may measure impairment based on a loan's observable market price less estimated costs of disposal, or the fair value of the collateral less estimated costs of disposal if the loan is collateral dependent. Regardless of the measurement method, a creditor may measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

The Company records cash receipts on impaired loans that are non-performing as a reduction to principal before applying amounts to interest or late charges unless specifically directed by the Bankruptcy Court to apply payments otherwise. The Company continues to recognize interest income on impaired loans that are performing.

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent more than three months are generally classified as non- accrual loans.

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	Loans Delinquent For 60-89 Days			90 Days and Over			Total		
	Number	Amount		Number	Amount		Number	Amount	
				(Dollars in thousands)					
At September 30, 2008									
One-to four-family residential	3	$	216	4	$	837	7	$	1,053
Commercial real estate	-		0	2		3,400	2		3,400
Construction	3		5,476	7		9,395	10		14,871
Home equity lines of credit	-		-	1		731	1		731
Commercial business	1		157	1		176	2		333
Other	-		-	-		-	-		-
Total	7	$	5,849	15	$	14,539	22	$	20,388
At September 30, 2007									
One-to four-family residential	-	$	-	2	$	65	2	$	65
Commercial real estate	3		2,214	1		1,936	4		4,150
Construction	-		-	4		6,008	4		6,008
Home equity lines of credit	-		-	-		-	-		-
Commercial business	-		-	3		36	3		36
Other	-		-	2		3	2		3
Total	3	$	2,214	12	$	8,048	15	$	10,262
At September 30, 2006									
One-to four-family residential	-	$	-	3	$	144	3	$	144
Commercial real estate	-		-	1	$	1,933	1		1,933
Construction	-		-	-		-	-		-
Home equity lines of credit	-		-	-		-	-		-
Commercial business	-		-	3		188	3		188
Other	-		-	1		-	1		-
Total	-	$	-	8	$	2,265	8	$	2,265
At September 30, 2005									
One-to four-family residential	2	$	50	6	$	393	8	$	443
Commercial real estate	-		-	1		257	-		257
Construction	-		-	-		-	-		-
Home equity lines of credit	-		-	-		-	-		-
Commercial business	-		-	4		387	4		387
Other	1		220	4		3	3		223
Total	3	$	270	15	$	1,040	15	$	1,310
At September 30, 2004									
One-to four-family residential	5	$	586	3	$	153	5	$	739
Commercial real estate	-		-	-		-	-		-
Construction	-		-	-		-	-		-
Home equity lines of credit	-		-	-		-	-		-
Commercial business	3		1,628	1		94	1		1,722
Other	3		70	-		-	2		70
Total	11	$	2,284	4	$	247	8	$	2,531

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Real Estate Owned. Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value result in charges to expense after acquisition.

The Company held $4.7 million of real estate owned properties at September 30, 2008 and $2.2 million of real estate owned properties at September 30, 2007. During the year ended September 30, 2008, the Company sold $1,283,000 of real estate owned at September 30, 2007 and incurred $87,000 in losses on the sales. In February 2008, the Company foreclosed on the real estate property securing a $4.2 million construction loan. The real estate consists of six residential building lots located in Rumson, NJ on which the Company has made site improvements and is in the process of marketing the lots for sale. At September 30, 2008, four of the six lots were under contract of sale.

Classified Assets. Federal banking regulations provide that loans and other assets of lesser quality should be classified as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the curren net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" we will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "un-collectible" and of such little value their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as "special mention" if the asset has a potential weakness that warrants management's close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. On the basis of our review of assets at September 30, 2008, classified assets consisted of $6.3 million of special mention assets and $27.7 million of substandard assets at September 30, 2008.

We are required to establish an allowance for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike impairment allowances, have not been allocated to particular problem assets. When we classify problem assets, we are required to determine whether or not impairment exists. A loan is impaired when, based on current information and events, it is probable that Magyar Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that impairment exists, a specific allowance for loss is established. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation which can direct us to establish additional loss allowances.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level management deems necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses in our loan portfolio both probable and reasonably estimable, and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. The allowance for loan losses as of September 30, 2008 was maintained at a level that represents management's best estimate of losses in the loan portfolio both probable and reasonably estimable. However, this analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe we have established the allowance at levels to absorb probable and

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estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

In addition, as an integral part of their examination process, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation will periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Allowance for Loan Losses. The following table sets forth activity in our allowance for loan losses for the periods indicated.

	September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balance at beginning of period	$ 3,754	$ 3,892	$ 3,129	$ 2,341	$ 2,150
Charge-offs:					
One-to four-family residential	31	-	13	-	-
Commercial real estate	111	-	-	-	-
Construction	3,084	652	-	-	-
Home equity lines of credit	69	-	2	-	-
Commercial business	227	-	180	94	-
Other	3	4	3	9	11
Total charge-offs	3,525	656	198	103	11
Recoveries:					
One-to four-family residential	13	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Commercial business	-	120	-	-	-
Other					