

BCB BANCORP INC  
Form 10-Q  
May 10, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 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 March 31, 2012.**

**Or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-50275**

**BCB Bancorp, Inc.**

**(Exact name of registrant as specified in its charter)**

New Jersey  
**(State or other jurisdiction of**

26-0065262  
**(IRS Employer**

**incorporation or organization) I.D. No.)**

104-110 Avenue C Bayonne, New Jersey 07002  
(Address of principal executive offices) (Zip Code)

**(201) 823-0700**

**(Registrant's telephone number, including area code)**

**(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. S Yes  
£ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer£ Accelerated Filer S

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 T No

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 1, 2012, BCB Bancorp, Inc., had 9,256,286 shares of common stock, no par value, outstanding.

**BCB BANCORP INC. AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Financial Condition

(In Thousands, Except Share and Per Share Data, Unaudited)

	March 31, 2012	December 31, 2011
<u>ASSETS</u>		
Cash and amounts due from depository institutions	\$9,518	\$8,692
Interest-earning deposits	106,057	108,395
Total Cash and Cash equivalents	115,575	117,087
Securities available for sale	1,190	1,045
Securities held to maturity, fair value \$218,369 and \$213,903; respectively	211,459	206,965
Loans held for sale	4,415	5,856
Loans receivable, net of allowance for loan losses of \$10,936 and \$10,509; respectively	828,397	840,763
Premises and equipment	13,724	13,576
Federal Home Loan Bank of New York stock	6,867	7,498
Interest receivable	4,739	4,997
Other real estate owned	6,027	6,570
Deferred income taxes	10,659	9,940
Other assets	1,497	2,611
Total Assets	\$1,204,549	\$1,216,908
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>LIABILITIES</u>		
Non-interest bearing deposits	\$80,595	\$78,589
Interest bearing deposits	900,925	899,034
Total deposits	981,520	977,623
Long-term debt	114,124	129,531

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Other Liabilities	10,142	9,706
Total Liabilities	1,105,786	1,116,860
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock: 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock; \$0.064; stated value; 20,000,000 shares authorized, 10,823,676 and 10,817,901 shares respectively, issued; 9,345,560 shares and 9,520,056 shares, respectively, outstanding	692	692
Additional paid-in capital	91,747	91,715
Treasury stock, at cost, 1,478,116 and 1,297,845 shares, respectively	(18,184 )	(16,327 )
Retained Earnings	25,708	25,255
Accumulated other comprehensive loss, net of taxes	(1,200 )	(1,287 )
Total Stockholders' equity	98,763	100,048
Total Liabilities and Stockholders' equity	\$1,204,549	\$1,216,908

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Income

(In Thousands, except for per share amounts, Unaudited)

	Three Months Ended March 31,	
	2012	2011
Interest income:		
Loans	\$11,973	\$11,261
Investments, taxable	1,534	1,753
Investment, non-taxable	12	12
Other interest-earning assets	30	28
Total interest income	13,549	13,054
Interest expense:		
Deposits:		
Demand	194	225
Savings and club	167	269
Certificates of deposit	1,568	1,667
	1,929	2,161
Borrowed money	1,323	1,221
Total interest expense	3,252	3,382
Net interest income	10,297	9,672
Provision for loan losses	600	350
Net interest income after provision for loan losses	9,697	9,322
Non-interest income:		
Fees and service charges	490	219
Gain on sales of loans	640	178
Gain on sale of securities held to maturity	128	—
Other	24	136
Total non-interest income	1,282	533
Non-interest expense:		
Salaries and employee benefits	3,933	3,007
Occupancy expense of premises	846	779



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Equipment	1,448	1,023
Professional fees	431	203
Directors fees	210	119
Regulatory assessments	310	438
Advertising	117	72
Loss on sale of real estate owned	137	80
Other	950	988
Total non-interest expense	8,382	6,709
Income before income tax provision	2,597	3,146
Income tax provision	1,009	1,225
Net Income	\$1,588	\$1,921
Net Income per common share:		
Basic	\$0.17	\$0.20
Diluted	\$0.17	\$0.20
Weighted average number of common shares outstanding:		
Basic	9,436	9,393
Diluted	9,449	9,413

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Statement of Consolidated Comprehensive Income

(In Thousands, Unaudited)

	Three Months Ended March 31,	
	<b>2012</b>	2011
Net Income	<b>\$1,588</b>	\$1,921
Other comprehensive income, net of tax		
Unrealized gains on available-for-sale securities:		
Unrealized holding gains arising during the period (a)	<b>87</b>	96
Less: reclassification adjustment for gains included in net income (b)	—	—
Other Comprehensive income	<b>87</b>	96
Comprehensive income	<b>\$1,675</b>	\$2,017

Represents the net change during the period of unrealized gain on available-for-sale securities. Represents a gross change of \$144,800 less deferred taxes of \$57,833 for the quarter ending March 31, 2012. Represents the net change during the period of unrealized gain on available-for-sale securities. Represents a gross change of \$160,400 less deferred taxes of \$64,064 for the quarter ending March 31, 2011.

(a) No sales during the period of available-for-sale securities that impacted net income for the quarters ended March 31, 2012 and 2011.

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statement of Changes in Stockholders' Equity

(In Thousands, except share and per share data, Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Beginning Balance at January 1, 2012	\$ 692	\$ 91,715	\$(16,327)	\$ 25,255	\$ (1,287)	) \$100,048
Exercise of Stock Options (5,775 shares)	—	30	—	—	—	30
Stock compensation expense	—	2	—	—	—	2
Treasury Stock Purchases (180,271 shares)	—	—	(1,857)	—	—	(1,857)
Cash dividend (\$0.12 per share) declared	—	—	—	(1,135)	—	(1,135)
Net income	—	—	—	1,588	—	1,588
Other Comprehensive income	—	—	—	—	87	87
Ending Balance at March 31, 2012	\$ 692	\$ 91,747	\$(18,184)	\$ 25,708	\$ (1,200)	) \$98,763

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In Thousands, Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net Income	\$1,588	\$1,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	275	250
Amortization and accretion, net	497	437
Provision for loan losses	600	350
Deferred income tax benefit	(776 )	(121 )
Loans originated for sale	(15,541 )	(6,102 )
Proceeds from sale of loans	16,856	8,822
Gain on sales of loans	(640 )	(178 )
Loss on sale of real estate owned	137	80
Gain on sales of securities held to maturity	(128 )	—
Stock compensation expense	2	—
Decrease (increase) in interest receivable	258	(384 )
Decrease in other assets	1,114	2,911
Increase (decrease) in accrued interest payable	13	(4 )
Increase (decrease) in other liabilities	423	(607 )
Net cash provided by operating activities	4,678	7,375
Cash flows from investing activities:		
Proceeds from repayments and calls on securities held to maturity	19,414	17,475
Purchases of securities held to maturity	(40,658 )	(78,621 )
Proceeds from sale of loans acquired	10,836	—
Proceeds from sales of securities held to maturity	16,290	—
Proceeds from sales of participation interest in loans	—	1,366
Proceeds from sales of real estate owned	1,583	443
Purchases of loans	(2,243 )	(835 )
Net decrease in loans receivable	2,911	7,841
Improvements to other real estate owned	(59 )	(5 )
Additions to premises and equipment	(423 )	(1,516 )
Redemption of Federal Home Loan Bank of New York stock	631	—
Net cash provided by (used in) investing activities	8,282	(53,852 )

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Cash flows from financing activities:		
Net Increase (decrease) in deposits	3,897	(7,417 )
Repayment of long-term debt	(15,407 )	—
Purchases of treasury stock	(1,857 )	(54 )
Cash dividend paid	(1,135 )	(1,128 )
Exercise of stock options	30	172
Net cash (used in) financing activities	(14,472 )	(8,427 )
Net Decrease in cash and cash equivalents	(1,512 )	(54,904 )
Cash and cash equivalents-beginning	117,087	121,127
Cash and cash equivalents-ending	\$ 115,575	\$ 66,223
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 500	\$ —
Interest	\$ 3,239	\$ 3,386
Non-cash items:		
Transfer of loans to other real estate owned	\$ 1,118	\$ 450
Loans to facilitate sale of other real estate owned	\$ —	\$ 103
Reclassification of loans originated for sale to held to maturity	\$ 479	\$ 1,291

See accompanying notes to consolidated financial statements.

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**BCB Bancorp Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**Note 1 – Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the “Company”) and the Company’s wholly owned subsidiaries, BCB Community Bank (the “Bank”), BCB Holding Company Investment Company, and Pamrapo Service Corporation. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2012 or any other future period. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2011, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

In preparing these consolidated financial statements, BCB Bancorp, Inc., evaluated the events and transactions that occurred between March 31, 2012, and the date these consolidated financial statements were issued.

**Note 2 – Acquisition of Allegiance Bancorp, Inc.**

On October 14, 2011, the Company acquired all of the outstanding common shares of Allegiance Community Bank (“Allegiance”) and thereby acquired all of Allegiance Community Bank’s two branch locations. Under the terms of the

merger agreement, Allegiance stockholders received 0.35 of a share of BCB Bancorp, Inc. common stock at a price of \$9.57 per share in exchange for each share of Allegiance common stock, resulting in BCB Bancorp, Inc. issuing 644,434 common shares of BCB Bancorp, Inc. common stock with an acquisition date fair value of \$6.2 million. ASC 805 “Business Combinations,” permits the use of provisional amounts for the assets acquired and liabilities assumed when the information at acquisition date is incomplete. During the measurement period, which is one year from the acquisition date, amounts provisionally assigned to the acquisition may be adjusted based on new information obtained during the measurement period. Under no circumstances may the measurement period exceed one year from the acquisition date.

### Note 3 – Pension and Other Postretirement Plans

The Company assumed, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan (“Pension Plan”), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the “Pension Plan” to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of service are not considered when computing an employee’s benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan (“SERP”) in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 ( the “Normal Retirement Age”), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Periodic pension and SERP cost, which is recorded as part of salaries and employee benefits expense in our Consolidated Statements of Income, is comprised of the following, (In Thousands):

	<b>Three months ended</b>	
	<b>March 31</b>	
	2012	2011
Pension plan:		
Interest cost	\$ 111	\$ 117
Expected return on plan assets	(100 )	(94 )
Amortization of unrecognized loss	28	—
Net periodic pension cost	\$ 39	\$ 23
SERP plan:		
Interest cost	\$ 5	\$ 7

Net periodic postretirement cost	\$ 5	\$ 7
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Table of Contents**Note 3 – Pension and Other Postretirement Plans (Continued)****Stock-Based Compensation Plan**

The Company, under the plan approved by its shareholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of BCB Bancorp, Inc. pursuant to grants of stock options. Employees and directors of BCB Bancorp, Inc. and BCB Community Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either “incentive” stock options or “non-qualified” stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. On September 29, 2011, a grant of 60,000 options was declared for certain members of the Board of Directors. The exercise price was recorded as of the close of business on September 29, 2011 and a Form 4 was filed for each Director as of that date with the Securities and Exchange Commission consistent with their filing requirements. No stock options were granted during the three months ended March 31, 2012.

A summary of stock option activity, adjusted to retroactively reflect subsequent stock dividends, follows:

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2011	317,976	\$5.29-29.25	\$ 11.61
Options forfeited	—	—	—
Options exercised	(5,775 )	5.29	5.29
Options granted	—	—	—
Outstanding at March 31, 2012	312,201	\$5.29-29.25	\$ 11.71

As of March 31, 2012, stock options which are granted and were exercisable totaled 257, 201 stock options.

Table of Contents**Note 4 – Earnings Per Share**

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. For the three months ended March 31, 2012 and 2011, the weighted average of outstanding options considered to be anti-dilutive were 238,197 and 180,684, respectively, and were therefore, excluded from the diluted net income per common share calculation.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Three Months Ended March 31, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except for Share Data)		
Net income	<b>\$1,588</b>		
Basic earnings per share			
Income available to Common stockholders	<b>\$1,588</b>	<b>9,436</b>	<b>\$ 0.17</b>
Effect of dilutive securities:			
Stock options:	<b>—</b>	<b>13</b>	
	<b>\$1,588</b>	<b>9,449</b>	<b>\$ 0.17</b>

	Three Months Ended March 31, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except for Share Data)		
Net income	\$1,921		
Basic earnings per share			
Income available to Common stockholders	\$1,921	9,393	\$ 0.20

Effect of dilutive securities:

Stock options:

—	20	
\$1,921	9,413	\$ 0.20

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Table of Contents**Note 5 – Securities Available for Sale**

	March 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	\$ 1,097	\$ 93	\$—	\$ 1,190

	December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	\$ 1,097	\$ 70	\$ 122	\$ 1,045

There were no sales of securities available for sale for the three months ended March 31, 2012 and 2011.

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities available for sale were as follows:

	Less than 12 Months		More than 12 Months		<b>Total</b>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
March 31, 2012						
Equity Securities-Financial Institutions	\$—	\$ —	\$ —	\$ —	\$—	\$ —
December 31, 2011						
Equity Securities-Financial Institutions	\$ 878	\$ 122	\$ —	\$ —	\$ 878	\$ 122

Table of Contents**Note 6 – Securities Held to Maturity**

	March 31, 2012			
	<b>Gross</b>	<b>Gross</b>		<b>Fair</b>
	<b>Amortized</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Value</b>
	<b>Cost</b>	<b>Gains</b>	<b>Losses</b>	
	(In Thousands)			
<b>Residential mortgage-backed securities:</b>				
Due within one year	\$3	\$ —	\$ —	\$3
Due after one year through five years	19	—	—	19
Due after five years through ten years	23,774	424	9	24,189
Due after ten years	185,919	6,535	140	192,314
	209,715	6,959	149	216,525
<b>Municipal obligations:</b>				
Due after five to ten years	390	31	—	421
Due after ten years	978	59	—	1,037
	1,368	90	—	1,458
<b>Trust originated preferred security:</b>				
Due after ten years	376	10	—	386
	1,744	100	—	1,844
	\$211,459	\$ 7,059	\$ 149	\$218,369

Table of Contents**Note 6 – Securities Held to Maturity (Continued)**

	December 31, 2011			
	<b>Amortized</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>Cost</b>			
	(In Thousands)			
U.S. Government Agencies:				
Due within one year	\$3,315	\$ 38	\$ —	\$3,353
Due after ten years	3,000	12	—	3,012
	6,315	50	—	6,365
Residential mortgage-backed securities:				
Due within one year	9	—	—	9
Due after one year through five years	1,325	32	3	1,354
Due after five years through ten years	37,034	417	44	37,407
Due after ten years	160,509	6,464	73	166,900
	198,877	6,913	120	205,670
Municipal obligations:				
Due after five to ten years	391	30	—	421
Due after ten years	979	59	—	1,038
	1,370	89	—	1,459
Trust originated preferred security:				
Due after ten years	403	6	—	409
	\$206,965	\$ 7,058	\$ 120	\$213,903

The amortized cost and carrying values shown above are by contractual final maturity. Actual maturities will differ from contractual final maturities due to scheduled monthly payments related to mortgage-backed securities and due to the borrowers having the right to prepay obligations with or without prepayment penalties. As of March 31, 2012 and December 31, 2011, all residential mortgage backed securities held in the portfolio were Government Sponsored Enterprise securities.

During the first quarter of 2012, management decided to sell mortgage-backed securities that were issued by the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”).

While these securities were classified as held to maturity, ASC 320 (formerly FAS 115) allows sales of securities so designated, provided that a substantial portion (at least 85%) of the principal balance has been amortized prior to the sale. During the three months ended March 31, 2012, proceeds from sales of securities held to maturity totaled approximately \$16,290,000 and resulted in gross gains of approximately \$165,000 and gross losses of approximately \$37,000.

There were no sales of securities held to maturity during the three months ended March 31, 2011.

Table of Contents**Note 6 – Securities Held to Maturity (Continued)**

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities held to maturity were as follows:

	Less than 12 Months		More than 12 Months		<b>Total</b>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
March 31, 2012						
Residential mortgage-backed securities	\$38,405	\$ 140	\$ 2,016	\$ 9	\$40,421	\$ 149
	\$38,405	\$ 140	\$ 2,016	\$ 9	\$40,421	\$ 149
December 31, 2011						
Residential mortgage-backed securities	\$16,949	\$ 82	\$ 5,942	\$ 38	\$22,891	\$ 120
	\$16,949	\$ 82	\$ 5,942	\$ 38	\$22,891	\$ 120

Management does not believe that any of the unrealized losses as of March 31, 2012, (which are related to twenty-four residential mortgage-backed securities) represent an other-than-temporary impairment as they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities as all these securities were issued by U.S. Agencies. Additionally, the Company has the ability, and management has the intent, to hold such securities for the time necessary to recover cost and does not have the intent to sell the securities, and it is more likely than not that it will not have to sell the securities before recovery of their cost.



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## Note 7 - Loans Receivable and Allowance for Loan Losses

The following table presents the recorded investment in loans receivable as of March 31, 2012 and December 31, 2011 by segment and class.

	<b>March 31, 2012</b>	December 31, 2011
	<b>(In Thousands)</b>	
Real estate mortgage:		
Residential	\$210,960	\$ 218,085
Commercial and multi-family	480,916	472,424
Construction	18,699	17,000
	710,575	707,509
Commercial:		
Business loans	<b>19,709</b>	30,290
Lines of credit	42,962	44,283
	62,671	74,573
Consumer:		
Passbook or certificate	762	809
Home equity lines of credit	18,481	18,923
Home equity	47,870	50,152
Automobile	82	103
Personal	298	301
	67,493	70,288
Deposit overdrafts	72	95
<b>Total Loans</b>	840,811	852,465
Deferred loan fees, net	(1,478 )	(1,193 )
Allowance for loan losses	(10,936 )	(10,509 )
	(12,414 )	(11,702 )
Net Loans	\$828,397	\$ 840,763



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Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

**Allowance for Loan Losses**

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated reserve for impaired loans, a specific reserve for impaired loans and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio by loans that are performing and loans that are impaired. Loans which are performing are evaluated collectively by loan class or loan type. The allowance for performing loans is evaluated based on historical loan loss experience, including consideration of peer loss analysis, with an adjustment for qualitative factors due to economic conditions in the Bank's market. Impaired loans are loans which are 90 days or more delinquent or troubled debt restructured. These loans are individually evaluated for impairment either by current appraisal or net present value of expected cash flows. Management reviews the overall estimate of this allowance for reasonableness and bases the loan loss provision accordingly.

The portfolio of performing loans is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for these loans:

Residential single family real estate loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate residential family real estate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Commercial and multi-family real estate lending entails significant additional risks as compared with residential family property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of the general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residence.

Commercial business lending is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans and lines of credit are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Home equity lending entails certain risks such as interest rate risk and risk of non-repayment. The marketability of the underlying property may be adversely affected by higher interest rates, decreasing the collateral securing the loan. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Home equity line of credit lending entails securing an equity interest in the borrower's home. The risk associated with this type of lending is the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower. This type of lending is often priced on an adjustable rate basis with the rate set at or above a predefined index. Adjustable-rate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default.

Consumer loans generally have more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans generally have shorter terms and higher interest rates than other lending. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

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Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly. In addition, as an integral part of their examination process, the Federal Deposit Insurance Corporation will periodically review the allowance for loan losses and may require us to adjust the allowance based on their analysis of information available to it at the time of its examination.

**Classified Assets.** The Company's policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention." An asset is considered substandard if it is inadequately protected by its current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that "some loss" will be sustained if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weakness present makes "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 "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted, and the loan, or a portion thereof, is charged-off. Assets may be designated special mention because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When the Company classifies problem loans, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. As of March 31, 2012, we had \$220,000 in assets classified as loss, \$7.4 million in assets classified as doubtful, \$37.3 million in assets classified as substandard, and \$37.4 million in assets classified as special mention. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily because either updated financial information has not been provided timely, or the collateral underlying the loan is in the process of being revalued.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-4) are treated as "pass" for grading purposes:

5 – *Special Mention*- Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

6 – *Substandard*- Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. The loan needs special and corrective attention.

7 – *Doubtful*- Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

8 – *Loss*- Continuance as a bankable asset is not warranted. However, this does not preclude future attempts at partial recovery.

The current methodology for this calculation is determined with the Company's specific Historical Loss Percentage ("HLP") for each loan type, using 2 years of prior Bank data (or 8 quarters). The relative weights of prior quarters are decayed logarithmically and are further adjusted based on the trend of the historical loss percentage at the time. Also, instead of applying consistent percentages to each of the credit risk grades, the current methodology applies a higher factor to classified loans based on a delinquency risk trend and concentration risk trend by using the past due and non-accrual as a percentage of the specific loan category.

Table of Contents**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the three months ended March 31, 2012 and recorded investment in loans receivable as of March 31, 2012. Net deferred loan fees of \$1,478,000 at March 31, 2012, are not included in table amounts. The following table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

	Commercial & Multi-family	Commercial & Multi-family	Construction (1)	Commercial Business (1)	Home equity (2)
Allowance for loan losses:					
Beginning balance December 31, 2011	\$2,679	\$5,798	\$304	\$1,041	\$677
Charge-offs	\$57	\$11	\$35	\$70	\$—
Recoveries	\$—	\$—	\$—	\$—	\$—
Provisions	\$127	\$53	\$234	\$104	\$—
Ending balance	\$2,749	\$5,840	\$503	\$1,075	\$677
March 31, 2012 Ending balance: individually evaluated for impairment	\$669	\$1,319	\$—	\$257	\$84
Ending balance: collectively evaluated for impairment	\$1,810	\$4,521	\$348	\$818	\$583
Ending balance: loans acquired with deteriorated credit quality	\$270	\$—	\$155	\$—	\$10
Loans receivables:					
Ending balance	\$210,960	\$480,916	\$18,699	\$62,671	\$66,331
Ending balance: individually evaluated for impairment	\$16,150	\$42,207	\$1,201	\$4,504	\$3,051
Ending balance: collectively evaluated for impairment	\$188,179	\$433,950	\$17,166	\$57,777	\$62,990
Ending balance: loans acquired with deteriorated credit quality	\$6,631	\$4,759	\$332	\$390	\$314

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.



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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Bank's allowance for loan losses for the three months ended March 31, 2011 and recorded investment in loans receivable as of March 31, 2011. Net deferred loan fees of \$527,000 at March 31, 2011, are not included in the table amounts. The following table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance- December 31, 2010	\$ 171	\$ 6,179	\$ 426	\$ 1,286	\$ 204	\$ 18	\$ 133	\$ 8,417
Charge-offs	\$ —	\$ 380	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 380
Recoveries	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Provisions	\$ 50	\$ —	\$ 38	\$ 248	\$ 2	\$ —	\$ 12	\$ 350
Ending balance- March 31, 2011	\$ 221	\$ 5,799	\$ 464	\$ 1,534	\$ 206	\$ 18	\$ 145	\$ 8,387
Ending balance: individually evaluated for impairment	\$ 15	\$ 627	\$ —	\$ 430	\$ 2	\$ —	\$ —	\$ 1,074
Ending balance: collectively evaluated for impairment	\$ 206	\$ 5,172	\$ 464	\$ 1,104	\$ 204	\$ 18	\$ 145	\$ 7,313
Ending balance: loans acquired with deteriorated credit quality	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans receivables:								
Ending balance	\$ 229,349	\$ 400,388	\$ 17,060	\$ 65,236	\$ 60,804	\$ 1,474	\$ —	\$ 774,311
Ending balance: individually evaluated for impairment	\$ 926	\$ 32,560	\$ 2,910	\$ 2,811	\$ 404	\$ —	\$ —	\$ 39,611
Ending balance: collectively evaluated for impairment	\$ 213,872	\$ 364,945	\$ 14,150	\$ 62,349	\$ 60,400	\$ 1,474	\$ —	\$ 717,190
Ending balance: loans acquired with deteriorated credit quality	\$ 14,551	\$ 2,883	\$ —	\$ 76	\$ —	\$ —	\$ —	\$ 17,510

- (1) Includes business lines of credit.
- (2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Bank's allowance for loan losses for the year ended December 31, 2011 and recorded investment in loans receivable at December 31, 2011. Net deferred loans fees of \$1,193,000 at December 31, 2011 are not included in the table amounts. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance- December 31, 2010	\$ 171	\$ 6,179	\$ 426	\$ 1,286	\$ 204	\$ 18	\$ 133	\$ 8,417
Charge-offs	\$ 122	\$ 1,173	\$ 687	\$ 24	\$ —	\$ 27	\$ —	\$ 2,033
Recoveries	\$ —	\$ 25	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 25
Provisions	\$ 2,630	\$ 767	\$ 565	\$ (221)	\$ 473	\$ 19	\$ (133)	\$ 4,100
Ending balance- December 31, 2011	\$ 2,679	\$ 5,798	\$ 304	\$ 1,041	\$ 677	\$ 10	\$ —	\$ 10,509
Ending balance: individually evaluated for impairment	\$ 550	\$ 2,674	\$ —	\$ 95	\$ 72	\$ —	\$ —	\$ 3,391
Ending balance: collectively evaluated for impairment	\$ 1,548	\$ 2,654	\$ 189	\$ 792	\$ 572	\$ 10	\$ —	\$ 5,765
Ending balance: loans acquired with deteriorated credit quality	\$ 581	\$ 470	\$ 115	\$ 154	\$ 33	\$ —	\$ —	\$ 1,353
Loans receivables:								
Ending balance	\$ 218,085	\$ 472,424	\$ 17,000	\$ 74,573	\$ 69,075	\$ 1,308	\$ —	\$ 852,465
Ending balance: individually evaluated for impairment	\$ 14,006	\$ 39,461	\$ 1,513	\$ 4,307	\$ 1,850	\$ —	\$ —	\$ 61,137
Ending balance: collectively evaluated for impairment	\$ 194,862	\$ 429,355	\$ 13,236	\$ 70,012	\$ 66,613	\$ 1,308	\$ —	\$ 775,386
Ending balance: loans acquired with deteriorated credit quality	\$ 9,217	\$ 3,608	\$ 2,251	\$ 254	\$ 612	\$ —	\$ —	\$ 15,942

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The tables below sets forth the amounts and types of non-accrual loans in the Bank's loan portfolio, as of March 31, 2012 and December 31, 2011. Loans are placed on non-accrual status when they become more than 90 days delinquent, or when the collection of principal and/or interest become doubtful. As of March 31, 2012 and December 31, 2011, total non-accrual loans differed from the amount of total loans past due greater than 90 days due to troubled debt restructuring of loans which are maintained on non-accrual status for a minimum of six months until the borrower has demonstrated its ability to satisfy the terms of the restructured loan.

	<b>As of March 31, 2012 (In Thousands)</b>
<u>Non-accruing loans:</u>	
Residential	\$ 13,494
Construction	2,339
Commercial business <sup>(1)</sup>	3,442
Commercial and multi-family	30,187
Home equity <sup>(2)</sup>	2,324
Consumer	10
Total	\$ 51,796

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

	<b>As of December 31, 2011 (In Thousands)</b>
<u>Non-accruing loans:</u>	
Residential	\$ 15,511
Construction	4,040
Commercial business <sup>(1)</sup>	4,265
Commercial and multi-family	22,280
Home equity <sup>(2)</sup>	1,729

Consumer	—
Total	\$ 47,825

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio class as of March 31, 2012 and average recorded investment and actual interest income recognized for the three months ended March 31, 2012 (In thousands):

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded:					
Residential Mortgages	\$ 6,394	\$ 6,394	\$ —	\$ 6,268	\$ 23
Commercial and Multi-family	27,150	27,150	—	25,284	163
Construction	1,201	1,201	—	1,357	—
Commercial Business <sup>(1)</sup>	2,731	2,731	—	2,549	12
Home Equity <sup>(2)</sup>	2,477	2,477	—	1,889	15
Consumer	10	10	—	5	—
With an allowance recorded:					
Residential Mortgages	\$ 10,918	\$ 10,918	\$ 939	\$ 9,391	\$ 155
Commercial and Multi-family	15,057	15,057	1,319	15,551	167
Construction	307	307	155	154	—
Commercial Business <sup>(1)</sup>	1,778	1,778	257	1,860	3
Home Equity <sup>(2)</sup>	575	575	94	288	5
Consumer	—	—	—	—	—
Total:					
Residential Mortgages	\$ 17,312	\$ 17,312	\$ 939	\$ 15,659	\$ 178
Commercial and Multi-family	42,207	42,207	1,319	40,835	330
Construction	1,508	1,508	155	1,511	—
Commercial Business <sup>(1)</sup>	4,509	4,509	257	4,409	15
Home Equity <sup>(2)</sup>	3,052	3,052	94	2,177	13
Consumer	10	10	—	5	—

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio class as of March 31, 2011 and average recorded investment and interest income recognized for the three months ended March 31, 2011 (In thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	\$ 517	\$ 517	\$ —	\$ 303	\$ —
Commercial and Multi-family	21,420	21,420	—	15,565	126
Construction	2,910	2,910	—	2,910	—
Commercial Business <sup>(1)</sup>	1,002	1,002	—	992	10
Home Equity <sup>(2)</sup>	291	291	—	240	2
Consumer	—	—	—	—	—
With an allowance recorded:					
Residential Mortgages	\$ 409	\$ 409	\$ 15	\$ 205	\$ 4
Commercial and Multi-family	11,140	11,140	627	14,427	140
Construction	—	—	—	—	—
Commercial Business <sup>(1)</sup>	1,809	1,809	430	1,819	—
Home Equity <sup>(2)</sup>	113	113	2	148	2
Consumer	—	—	—	—	—
Total:					
Residential Mortgages	\$ 926	\$ 926	\$ 15	\$ 508	\$ 4
Commercial and Multi-family	32,560	32,560	627	29,992	266
Construction	2,910	2,910	—	2,910	—
Commercial Business <sup>(1)</sup>	2,811	2,811	430	2,811	10
Home Equity <sup>(2)</sup>	404	404	2	388	4
Consumer	—	—	—	—	—

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.



Table of Contents**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2011 (In thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Residential Mortgages	\$ 6,142	\$ 6,142	\$ —
Commercial and Multi-family	23,417	23,417	—
Construction	1,513	1,513	—
Commercial Business <sup>(1)</sup>	2,366	2,366	—
Home Equity <sup>(2)</sup>	1,301	1,301	—
Consumer	—	—	—
With an allowance recorded:			
Residential Mortgages	\$ 7,864	\$ 7,864	\$ 550
Commercial and Multi-family	16,044	16,044	2,674
Construction	—	—	—
Commercial Business <sup>(1)</sup>	1,941	1,941	95
Home Equity <sup>(2)</sup>	549	549	72
Consumer	—	—	—
Total:			
Residential Mortgages	\$ 14,006	\$ 14,006	\$ 550
Commercial and Multi-family	39,461	39,461	2,674
Construction	1,513	1,513	—
Commercial Business <sup>(1)</sup>	4,307	4,307	95
Home Equity <sup>(2)</sup>	1,850	1,850	72
Consumer	—	—	—

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes information in regards to troubled debt restructurings for the three months ended March 31, 2012, (In thousands):

	<b>Number of Contracts</b>	<b>Pre-Modification Outstanding Recorded Investments</b>	<b>Post-Modification Outstanding Recorded Investments</b>
Troubled Debt Restructurings			
Residential	<b>9</b>	<b>\$ 3,557</b>	<b>\$ 3,557</b>
Commercial and multi-family	<b>9</b>	<b>\$ 5,369</b>	<b>\$ 5,369</b>
Construction	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>
Commercial business	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>
Home equity	<b>2</b>	<b>\$ 200</b>	<b>\$ 200</b>
Consumer	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>

The loans included above are considered TDR's as a result of the Bank implementing one or more of the following concessions: granting a material extension of time, issuing a forbearance agreement, adjusting the interest rate, accepting interest only for a period of time or a change in amortization period. As of March 31, 2012, new TDR's totaled \$9.1 million. All TDR's were considered impaired and therefore were individually evaluated for impairment in the calculation of the allowance for loan losses.

The following table summarizes information in regards to troubled debt restructurings entered into during the last twelve months for which there was a payment default during the three months ended March 31, 2012, (In thousands):

	<b>Number of Contracts</b>	<b>Recorded Investment</b>
Troubled Debt Restructurings That Subsequently Defaulted		
Residential	<b>2</b>	<b>\$ 216</b>

Commercial and multi-family	<b>2</b>	<b>\$ 1,140</b>
Construction	—	\$ —
Commercial business	<b>1</b>	<b>\$ 844</b>
Home equity	<b>2</b>	<b>\$ 295</b>
Consumer	—	\$ —

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the delinquency status of total loans receivable as of March 31, 2012:

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
	(In Thousands)						
Residential	\$3,226	\$385	\$9,741	\$13,352	\$197,608	\$210,960	—
Commercial and multi-family	5,417	4,822	25,372	35,611	445,305	480,916	—
Construction	2,634	—	1,251	3,885	14,814	18,699	—
Commercial business <sup>(1)</sup>	296	2,232	2,576	5,104	57,567	62,671	—
Home equity <sup>(2)</sup>	982	308	2,324	3,614	62,737	66,351	—
Consumer	6	—	10	16	1,198	1,214	—
Total	\$12,561	\$7,747	\$41,274	\$61,582	\$779,229	\$840,811	—

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

The following table sets forth the delinquency status of total loans receivable at December 31, 2011:

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
	(In Thousands)						
Residential	\$3,272	\$1,381	\$10,473	\$15,126	\$202,959	\$218,085	—
Commercial and multi-family	11,112	1,839	19,866	32,817	439,607	472,424	—
Construction	130	—	3,660	3,790	13,210	17,000	—
Commercial business <sup>(1)</sup>	536	499	1,286	2,321	72,252	74,573	—
Home equity <sup>(2)</sup>	1,738	242	1,099	3,079	65,996	69,075	—
Consumer	10	—	—	10	1,298	1,308	—
Total	\$16,798	\$3,961	\$36,384	\$57,143	\$795,322	\$852,465	—

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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Table of Contents**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of March 31, 2012 (In Thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Residential	\$191,130	\$8,328	\$ 9,622	\$ 1,853	\$27	\$210,960
Commercial and multi-family	432,361	23,683	22,677	2,195	—	480,916
Construction	16,423	—	1,642	634	—	18,699
Commercial business <sup>(1)</sup>	54,849	4,158	867	2,673	124	62,671
Home equity <sup>(2)</sup>	62,513	1,273	2,496	—	69	66,351
Consumer	1,204	—	10	—	—	1,214
Total	\$758,480	\$37,442	\$ 37,314	\$ 7,355	\$220	\$840,811

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of December 31, 2011 (In Thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Residential	\$203,317	\$5,316	\$ 7,632	\$ 1,437	\$383	\$218,085
Commercial and multi-family	426,983	19,620	23,618	2,203	—	472,424
Construction	13,697	—	2,619	684	—	17,000
Commercial business <sup>(1)</sup>	67,593	2,827	1,245	2,784	124	74,573
Home equity <sup>(2)</sup>	67,126	468	1,412	—	69	69,075
Consumer	1,308	—	—	—	—	1,308
Total	\$780,024	\$28,231	\$ 36,526	\$ 7,108	\$576	\$852,465

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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Table of Contents**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the unpaid principal balance and the related recorded investment of acquired loans included in our Consolidated Statements of Financial Condition.

	March 31, 2012 (In Thousands)	December 31, 2011
Unpaid principal balance	\$379,922	\$410,057
Recorded investment	375,421	405,951

The following table presents changes in the accretable discount on loans acquired for the three months ended March 31, 2012 and 2011, (In Thousands):

	March 31, 2012 (In Thousands)	March 31, 2011
Beginning Balance	\$180,722	\$205,491
Accretion	(13,593 )	(12,126 )
Ending Balance	\$167,129	\$193,365

No interest income is being recognized on loans acquired where the fair value of the loan was based on the cash flows expected to be received from the foreclosure and sale of the underlying collateral. The carrying value of these loans as of March 31, 2012 and December 31, 2011, was \$12.5 million and \$13.3 million, respectively.



Table of Contents**Note 8 – Fair Values of Financial Instruments**

Guidance on fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2:** Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3:** Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The only assets or liabilities that the Company measured at fair value on a recurring basis were as follows (In Thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
As of March 31, 2012:				
Securities available for sale — Equity Securities	\$ 1,190	\$ 1,190	\$ —	\$ —
As of December 31, 2011:				
Securities available for sale — Equity Securities	\$ 1,045	\$ 1,045	\$ —	\$ —

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There were no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 of the fair value hierarchy during the three months ended March 31, 2012.

The Company's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 of the fair value hierarchy during the three months ended March 31, 2012.

The only assets or liabilities that the Company measured at fair value on a nonrecurring basis were as follows (In Thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
As of March 31, 2012:				
Impaired loans	\$26,801	\$ —	\$ —	\$ 26,801
As of December 31, 2011:				
Impaired Loans	\$23,007	\$ —	\$ —	\$ 23,007
Real estate owned	\$300	\$ —	\$ —	\$ 300

Table of Contents**Note 8 – Fair Values of Financial Instruments (Continued)**

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value:

## Quantitative Information about Level 3 Fair Value Measurements

	Fair Value Valuation Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
March 31, 2012:				
Impaired Loans	\$ 26,801	Appraisal of collateral (1)	Appraisal adjustments (2)	10%
			Liquidation expenses (3)	10%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated (2) liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of March 31, 2012 and December 31, 2011.

**Cash and Cash Equivalents (Carried at Cost)**

The carrying amounts reported in the consolidated statements of financial condition for cash and short-term instruments approximate those assets' fair values.

**Securities**

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets and/or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

#### **Loans Held for Sale (Carried at Lower of Cost or Fair Value)**

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for specific attributes of that loan. Loans held for sale are carried at their cost as of March 31, 2012 and December 31, 2011.

#### **Loans Receivable (Carried at Cost)**

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

#### **Impaired Loans (Generally Carried at Fair Value)**

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loans observable market price or the fair value of the collateral if the loan is collateral dependent. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of \$29,565,000 and \$26,398,000, net of a valuation allowance of \$2,764,000 and \$3,391,000 as of March 31, 2012 and December 31, 2011, respectively.



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**Note 8 – Fair Values of Financial Instruments (Continued)**

**Real Estate Owned (Generally Carried at Fair Value)**

Real Estate Owned is generally carried at fair value, when the carry value is written down to fair value, which is determined based upon independent third-party appraisals of the properties, or based upon the expected proceeds from a pending sale. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

**FHLB of New York Stock (Carried at Cost)**

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

**Interest Receivable and Payable (Carried at Cost)**

The carrying amount of interest receivable and interest payable approximates its fair value.

**Deposits (Carried at Cost)**

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

**Long-Term Debt (Carried at Cost)**

Fair values of long-term debt are estimated using discounted cash flow analysis, based on quoted prices for new long-term debt with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

#### **Off-Balance Sheet Financial Instruments**

Fair values for the Company's off-balance sheet financial instruments (lending commitments and unused lines of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these commitments was deemed immaterial and is not presented in the accompanying table.

Table of Contents**Note 8 – Fair Values of Financial Instruments (Continued)**

The carrying values and estimated fair values of financial instruments were as follows as of March 31, 2012 and December 31, 2011:

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
Financial assets:					
Cash and cash equivalents	\$115,575	\$115,575	\$115,575	—	—
Securities available for sale	1,190	1,190	1,190	—	—
Securities held to maturity	211,459	218,369	—	218,369	—
Loans held for sale	4,415	4,538	—	4,538	—
Loans receivable	828,397	876,376	—	—	876,376
FHLB of New York stock	6,867	6,867	6,867	—	—
Interest receivable	4,739	4,739	4,739	—	—
Financial liabilities:					
Deposits	981,520	987,385	531,146	456,239	—
Long-term debt	114,124	131,112	—	131,112	—
Interest payable	826	826	826	—	—