TIMBERLAND BANCORP INC
Form 10-Q
August 07, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____.

Commission file number 000-23333

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No __

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

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

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

Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No _X_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	SHARES OUTSTANDING AT AUGUST 3, 2017
Common stock, $.01 par value	7,358,877

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2017 and September 30, 2016
(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited)	September 30, 2016 *
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 17,476	$ 16,686
Interest-bearing deposits in banks	114,964	92,255
Total cash and cash equivalents	132,440	108,941
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	41,187	53,000
Investment securities held to maturity, at amortized cost (estimated fair value $7,912 and $8,395)	7,244	7,511
Investment securities available for sale, at fair value	1,260	1,342
Federal Home Loan Bank of Des Moines (“FHLB”) stock	1,107	2,204
Other investments, at cost	3,000	—
Loans held for sale	3,523	3,604
Loans receivable, net of allowance for loan losses of $9,610 and $9,826	687,158	663,146
Premises and equipment, net	18,465	16,159
Other real estate owned (“OREO”) and other repossessed assets, net	3,417	4,117
Accrued interest receivable	2,437	2,348
Bank owned life insurance (“BOLI”)	19,127	18,721
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,781	1,573
Other assets	3,213	3,072
Total assets	$ 931,009	$ 891,388
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 197,527	$ 172,283
Interest-bearing	621,291	589,251
Total deposits	818,818	761,534
FHLB borrowings	—	30,000
Other liabilities and accrued expenses	3,575	3,020
Total liabilities	822,393	794,554

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
June 30, 2017 and September 30, 2016
(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited)	September 30, 2016 *
Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	$ —	$ —
Common stock, $.01 par value; 50,000,000 shares authorized;		
7,354,577 shares issued and outstanding - June 30, 2017 6,943,868 shares issued and outstanding - September 30, 2016	13,223	9,961
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(463)	(661)
Retained earnings	96,018	87,709
Accumulated other comprehensive loss	(162)	(175)
Total shareholders' equity	108,616	96,834
Total liabilities and shareholders' equity	$ 931,009	$ 891,388

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

4

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the three and nine months ended June 30, 2017 and 2016
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Interest and dividend income				
Loans receivable and loans held for sale	$9,652	$8,257	$27,280	$24,992
Investment securities	69	70	207	213
Dividends from mutual funds, other investments and FHLB stock	23	22	60	83
Interest-bearing deposits in banks and CDs	421	247	1,081	649
Total interest and dividend income	10,165	8,596	28,628	25,937
Interest expense				
Deposits	549	508	1,637	1,520
FHLB borrowings	369	472	979	1,420
Total interest expense	918	980	2,616	2,940
Net interest income	9,247	7,616	26,012	22,997
Recapture of loan losses	(1,000)	—	(1,250)	—
Net interest income after recapture of loan losses	10,247	7,616	27,262	22,997
Non-interest income				
Other than temporary impairment ("OTTI") on investment securities	—	(4)	—	(27)
Adjustment for portion of OTTI transferred from other comprehensive income before income taxes	—	—	—	(1)
Net OTTI on investment securities	—	(4)	—	(28)
Service charges on deposits	1,153	989	3,348	2,898
ATM and debit card interchange transaction fees	855	778	2,448	2,187
BOLI net earnings	133	137	406	410
Gain on sales of loans, net	561	443	1,656	1,230
Escrow fees	51	64	191	153
Servicing income on loans sold	106	60	302	180
Other, net	297	282	873	750
Total non-interest income, net	3,156	2,749	9,224	7,780

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and nine months ended June 30, 2017 and 2016
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Non-interest expense				
Salaries and employee benefits	$3,741	$ 3,397	$11,176	$ 10,333
Premises and equipment	767	774	2,298	2,305
Advertising	170	192	499	590
OREO and other repossessed assets, net	4	123	22	561
ATM and debit card interchange transaction fees	375	337	1,036	990
Postage and courier	109	98	324	309
State and local taxes	176	141	484	410
Professional fees	230	202	629	449
Federal Deposit Insurance Corporation ("FDIC") insurance	99	100	319	334
Loan administration and foreclosure	20	92	113	216
Data processing and telecommunications	480	470	1,394	1,394
Deposit operations	301	232	850	638
Other	466	410	1,462	1,146
Total non-interest expense	6,938	6,568	20,606	19,675
Income before federal income taxes	6,465	3,797	15,880	11,102
Provision for federal income taxes	2,188	1,250	5,328	3,647
Net income	$4,277	$ 2,547	$10,552	$ 7,455
Net income per common share				
Basic	$0.59	$ 0.37	$1.49	$ 1.09
Diluted	$0.58	$ 0.36	$1.44	$ 1.05
Weighted average common shares outstanding				
Basic	7,269,564	6,822,608	7,088,134	6,846,373
Diluted	7,432,177	7,111,199	7,348,486	7,091,661
Dividends paid per common share	$0.11	$ 0.08	$0.31	$ 0.28

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended June 30, 2017 and 2016
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Comprehensive income				
Net income	$4,277	$2,547	$10,552	$7,455
Unrealized holding gains (losses) on investment securities available for sale, net of income taxes of $3, $3, ($11) and $2, respectively	5	6	(22)	5
Change in OTTI on investment securities held to maturity, net of income taxes:				
Adjustments related to other factors for which OTTI was previously recognized, net of income taxes of $0, $0, $0 and $6, respectively	—	—	—	10
Amount reclassified to credit loss (recorded as market loss), net of income taxes of $0, $0, $0 and $1, respectively	—	—	—	1
Accretion of OTTI on investment securities held to maturity, net of income taxes of $5, $4, $18 and $13, respectively	11	7	35	24
Total other comprehensive income, net of income taxes	16	13	13	40
Total comprehensive income	$4,293	$2,560	$10,565	$7,495

See notes to unaudited consolidated financial statements

7

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the nine months ended June 30, 2017 and 2016
(Dollars in thousands, except per share amounts)
(Unaudited)

	Number of Shares Common Stock	Amount Common Stock	Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
Balance, September 30, 2015	6,988,848	$10,293	$ (926)	$80,133	$ (313)	$89,187
Net income	—	—	—	7,455	—	7,455
Other comprehensive income	—	—	—	—	40	40
Repurchase of common stock	(66,000)	(820)	—	—	—	(820)
Exercise of stock options	16,220	128	—	—	—	128
Common stock dividends ($0.28 per common share)	—	—	—	(1,953)	—	(1,953)
Earned ESOP shares, net of income taxes	—	94	198	—	—	292
Stock option compensation expense	—	123	—	—	—	123
Balance, June 30, 2016	6,939,068	9,818	(728)	85,635	(273)	94,452
Balance, September 30, 2016	6,943,868	9,961	(661)	87,709	(175)	96,834
Net income	—	—	—	10,552	—	10,552
Other comprehensive income	—	—	—	—	13	13
Exercise of stock warrant	370,899	2,496	—	—	—	2,496
Exercise of stock options	39,810	265	—	—	—	265
Common stock dividends ($0.31 per common share)	—	—	—	(2,243)	—	(2,243)
Earned ESOP shares, net of income taxes	—	230	198	—	—	428
Stock option compensation expense	—	271	—	—	—	271
Balance, June 30, 2017	7,354,577	$13,223	$ (463)	$96,018	$ (162)	$108,616

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended June 30, 2017 and 2016
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2017	2016
Cash flows from operating activities		
Net income	$10,552	$7,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of loan losses	(1,250)	—
Depreciation	946	998
Earned ESOP shares	198	198
Stock option compensation expense	118	114
Stock option tax effect less excess tax benefit	22	5
Gain on sales of OREO and other repossessed assets, net	(53)	(47)
Provision for OREO losses	42	394
(Gain) loss on sales/dispositions of premises and equipment, net	(3)	4
BOLI net earnings	(406)	(410)
Gain on sales of loans, net	(1,656)	(1,230)
Loans originated for sale	(54,805)	(41,353)
Proceeds from sales of loans	56,542	40,749
Increase in deferred loan origination fees	80	40
Net OTTI on investment securities	—	28
Amortization of MSRs	369	428
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	(326)	(151)
Net cash provided by operating activities	10,370	7,222
Cash flows from investing activities		
Net decrease (increase) in CDs held for investment	11,813	(3,824)
Proceeds from maturities and prepayments of investment securities held to maturity	387	388
Proceeds from maturities and prepayments of investment securities available for sale	49	37
Purchase of FHLB stock	(103)	(105)
Redemption of FHLB stock	1,200	—
Purchase of other investments	(3,000)	—
Increase in loans receivable, net	(23,566)	(43,452)
Additions to premises and equipment	(3,249)	(372)
Capitalized improvements to OREO	—	(142)
Proceeds from sales of OREO and other repossessed assets	1,435	3,210
Net cash used in investing activities	(15,034)	(44,260)

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the nine months ended June 30, 2017 and 2016
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2017	2016
Cash flows from financing activities		
Net increase in deposits	$57,284	$36,469
Repayment of FHLB borrowings	(30,000)	—
ESOP tax effect	230	94
Proceeds from exercise of stock options	265	128
Stock option excess tax benefit	131	4
Proceeds from exercise of stock warrant	2,492	—
Issuance of common stock	4	—
Repurchase of common stock	—	(820)
Payment of dividends	(2,243)	(1,953)
Net cash provided by financing activities	28,163	33,922
Net increase in cash and cash equivalents	23,499	(3,116)
Cash and cash equivalents		
Beginning of period	108,941	92,289
End of period	$132,440	$89,173
Supplemental disclosure of cash flow information		
Income taxes paid	$5,376	$3,450
Interest paid	2,701	2,924
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$724	$323
Other comprehensive income related to investment securities	13	40

See notes to unaudited consolidated financial statements

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2016 ("2016 Form 10-K"). The unaudited consolidated results of operations for the nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2017.

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

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

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

(e) Certain prior period amounts have been reclassified to conform to the June 30, 2017 presentation with no change to net income or total shareholders' equity as previously reported.

(2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management’s intent and were as follows as of June 30, 2017 and September 30, 2016 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	$ 565	$ 12	$ (1)	$ 576
Private label residential	671	651	(4)	1,318
U.S. Treasury and U.S government agency securities	6,008	16	(6)	6,018
Total	$ 7,244	$ 679	$ (11)	$ 7,912
Available for sale				
MBS: U.S. government agencies	$ 288	$ 21	$ —	$ 309
Mutual funds	1,000	—	(49)	951
Total	$ 1,288	$ 21	$ (49)	$ 1,260
September 30, 2016				
Held to maturity				
MBS:				
U.S. government agencies	$ 670	$ 18	$ (1)	$ 687
Private label residential	835	762	(2)	1,595
U.S. Treasury and U.S. government agency securities	6,006	107	—	6,113
Total	$ 7,511	$ 887	$ (3)	$ 8,395
Available for sale				
MBS: U.S. government agencies	$ 336	$ 30	$ —	$ 366
Mutual funds	1,000	—	(24)	976
Total	$ 1,336	$ 30	$ (24)	$ 1,342

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

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$46	$ (1)	2	$81	$ —	5	$127	$ (1)
Private label residential	21	(1)	2	92	(3)	11	113	(4)
U.S. Treasury and U.S. government agency securities	2,987	(6)	1	—	—	—	2,987	(6)
Total	$3,054	$ (8)	5	$173	$ (3)	16	$3,227	$ (11)
Available for sale								
Mutual funds	$—	$ —	—	$951	$ (49)	1	$951	$ (49)
Total	$—	$ —	—	$951	$ (49)	1	$951	$ (49)

Held to maturity and available for sale investment securities with unrealized losses were as follows for September 30, 2016 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$9	$ —	1	$96	$ (1)	5	$105	$ (1)
Private label residential	1	—	1	112	(2)	10	113	(2)
Total	$10	$ —	2	$208	$ (3)	15	$218	$ (3)
Available for sale								
Mutual funds	$—	$ —	—	$976	$ (24)	1	$976	$ (24)
Total	$—	$ —	—	$976	$ (24)	1	$976	$ (24)

The Company has evaluated the investment securities in the above tables and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of June 30, 2017, management does not have the intent to sell any of the securities classified as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost or recorded value if previously written down.

In accordance with GAAP, the Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss). To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of the OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates, prepayment speeds and

third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimates of the credit loss component on OTTI securities as of June 30, 2017 and 2016:

	Range Minimum	Range Maximum	Weighted Average
June 30, 2017			
Constant prepayment rate	6.00 %	15.00 %	11.54 %
Collateral default rate	0.09 %	9.88 %	4.66 %
Loss severity rate	6.00 %	62.00 %	41.93 %
June 30, 2016			
Constant prepayment rate	6.00 %	15.00 %	11.17 %
Collateral default rate	0.06 %	15.44 %	5.50 %
Loss severity rate	1.00 %	75.00 %	41.23 %

The following table presents the OTTI for the three and nine months ended June 30, 2017 and 2016 (dollars in thousands):

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$ —	$ —	$ (4)	$ —
Adjustment for portion of OTTI recorded as other comprehensive income before income taxes (1)	—	—	—	—
Net OTTI recognized in earnings (2)	$ —	$ —	$ (4)	$ —

	Nine Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$ —	$ —	$ (27)	$ —
Adjustment for portion of OTTI transferred from other comprehensive income before income taxes (1)	—	—	(1)	—
Net OTTI recognized in earnings (2)	$ —	$ —	$ (28)	$ —

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

The following table presents a roll forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings for the nine months ended June 30, 2017 and 2016 (dollars in thousands):

	Nine Months Ended June 30,	
	2017	2016
Beginning balance of credit loss	$1,505	$1,576
Additions:		
Additional increases to the amount related to credit loss for which OTTI was previously recognized	—	22
Subtractions:		
Realized losses previously recorded as credit losses	(48)	(74)
Ending balance of credit loss	$1,457	$1,524

During the three months ended June 30, 2017, the Company recorded a $12,000 net realized loss (as a result of the securities being deemed worthless) on 15 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the nine months ended June 30, 2017, the Company recorded a $48,000 net realized loss (as a result of securities being deemed worthless) on 18 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss. During the three months ended June 30, 2016, the Company recorded a $17,000 net realized loss (as a result of the securities being deemed worthless) on 13 held to maturity residential MBS, of which $15,000 had been recognized previously as a credit loss. During the nine months ended June 30, 2016, the Company recorded a $81,000 net realized loss (as a result of securities being deemed worthless) on 16 held to maturity residential MBS, of which $74,000 had been previously recognized as a credit loss.

The recorded amount of residential MBS, treasury and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral and other non-profit organization deposits totaled $6.88 million and $7.04 million at June 30, 2017 and September 30, 2016, respectively.

The contractual maturities of debt securities at June 30, 2017 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities due to the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$14	$ 14	$—	$ —
Due after one year to five years	5,995	6,005	—	—
Due after five to ten years	14	14	—	—
Due after ten years	1,221	1,879	288	309
Total	$7,244	$ 7,912	$288	$ 309

(3) GOODWILL

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is analyzed annually for impairment. The Company performs an annual review during the third quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

The annual goodwill impairment test begins with a qualitative assessment of whether it is "more likely than not" that the reporting unit's fair value is less than its carrying amount. If an entity concludes that it is not "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it need not perform a two-step impairment test. In the case of the

Company, the services offered through the Bank and its subsidiary are managed as one strategic unit and represent the Company's only reporting unit.

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carrying amount and therefore goodwill was determined not to be impaired at May 31, 2017.

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

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

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

As of June 30, 2017, management believed that there had been no events or changes in the circumstances since May 31, 2017 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(4) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable by portfolio segment consisted of the following at June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017		September 30, 2016	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (a)	$121,705	15.8 %	$118,560	16.4 %
Multi-family	61,051	7.9	62,303	8.6
Commercial	331,901	43.0	312,525	43.2
Construction - custom and owner/builder	109,578	14.3	93,049	12.9
Construction - speculative one- to four-family	8,002	1.0	8,106	1.1
Construction - commercial	20,067	2.6	9,365	1.3
Construction - multi-family	11,057	1.4	12,590	1.7
Land	24,333	3.2	21,627	3.0
Total mortgage loans	687,694	89.2	638,125	88.2
Consumer loans:				
Home equity and second mortgage	36,320	4.7	39,727	5.5
Other	3,789	0.5	4,139	0.5
Total consumer loans	40,109	5.2	43,866	6.0
Commercial business loans	43,407	5.6	41,837	5.8
Total loans receivable	771,210	100.0%	723,828	100.0%
Less:				
Undisbursed portion of construction loans in process	72,133		48,627	
Deferred loan origination fees, net	2,309		2,229	
Allowance for loan losses	9,610		9,826	
	84,052		60,682	
Loans receivable, net	$687,158		$663,146	

(a) Does not include one- to four-family loans held for sale totaling $3,523 and $3,604 at June 30, 2017 and September 30, 2016, respectively.

Allowance for Loan Losses

The following tables set forth information for the three and nine months ended June 30, 2017 and 2016 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,126	$ (11)	$ —	$ —	$ 1,115
Multi-family	480	(16)	—	—	464
Commercial	4,316	(1,040)	—	1,061	4,337
Construction – custom and owner/builder	695	17	—	—	712
Construction – speculative one- to four-family	85				