Magyar Bancorp, Inc.
Form 10-Q
February 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(732) 342-7600

(Issuer'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 past 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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

Yes o No þ

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

Class	Outstanding at February 1, 2015
Common Stock, $0.01 Par Value	5,815,444

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	December 31, 2014 (Unaudited)	September 30, 2014
Assets		
Cash	$ 1,416	$ 1,205
Interest earning deposits with banks	6,448	9,053
Total cash and cash equivalents	7,864	10,258
Investment securities - available for sale, at fair value	9,003	12,070
Investment securities - held to maturity, at amortized cost (fair value of $47,846 and $48,822 at December 31, 2014 and September 30, 2014, respectively)	47,495	48,963
Federal Home Loan Bank of New York stock, at cost	1,863	1,761
Loans receivable, net of allowance for loan losses of $2,939 and $2,835 December 31, 2014 and September 30, 2014, respectively	407,773	404,195
Bank owned life insurance	10,736	10,658
Accrued interest receivable	1,599	1,672
Premises and equipment, net	18,417	18,580
Other real estate owned ("OREO")	15,084	17,342
Other assets	4,711	4,931
Total assets	$ 524,545	$ 530,430
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 445,842	$ 448,451
Escrowed funds	1,161	1,157
Federal Home Loan Bank of New York advances	27,751	25,500
Securities sold under agreements to repurchase	—	5,000
Accrued interest payable	116	119
Accounts payable and other liabilities	3,491	4,271
Total liabilities	478,361	484,498
Stockholders' equity		

Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	—	—
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,815,444 shares outstanding at December 31, 2014 and September 30, 2014	59	59
Additional paid-in capital	26,296	26,295
Treasury stock: 108,298 shares at December 31, 2014 and September 30, 2014, at cost	(1,211)	(1,211)
Unearned Employee Stock Ownership Plan shares	(847)	(877)
Retained earnings	22,564	22,382
Accumulated other comprehensive loss	(677)	(716)
Total stockholders' equity	46,184	45,932
Total liabilities and stockholders' equity	$ 524,545	$ 530,430

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Interest and dividend income		
Loans, including fees	$4,459	$4,539
Investment securities		
Taxable	330	413
Tax-exempt	—	—
Federal Home Loan Bank of New York stock	23	21
Total interest and dividend income	4,812	4,973
Interest expense		
Deposits	602	644
Borrowings	219	281
Total interest expense	821	925
Net interest and dividend income	3,991	4,048
Provision for loan losses	420	359
Net interest and dividend income after provision for loan losses	3,571	3,689
Other income		
Service charges	199	207
Income on bank owned life insurance	77	83
Other operating income	23	14
Gains on sales of loans	233	30
Gains on sales of investment securities	30	36
Total other income	562	370
Other expenses		
Compensation and employee benefits	2,002	1,933
Occupancy expenses	703	718
Professional fees	292	267
Data processing expenses	146	143
OREO expenses	111	186

FDIC deposit insurance premiums	180	181
Loan servicing expenses	78	135
Insurance expense	57	57
Other expenses	308	265
Total other expenses	3,877	3,885
Income before income tax expense	256	174
Income tax expense	74	41
Net income	$182	$133
Net income per share-basic and diluted	$0.03	$0.02

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Net income	$182	$133
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities available for sale	91	(81)
Realized gains on sales of securities available for sale	(30)	—
Other comprehensive income (loss), before tax	61	(81)
Deferred income tax effect	(22)	30
Total other comprehensive income (loss)	39	(51)
Total comprehensive income	$221	$82

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity

For the Three Months Ended December 31, 2014 and 2013

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2014	5,815,444	$ 59	$ 26,295	$ (1,211)	$ (877)	$ 22,382	$ (716)	$ 45,932
Net income	—	—	—	—	—	182	—	182
Other comprehensive income (loss)	—	—	—	—	—	—	39	39
ESOP shares allocated	—	—	(3)	—	30	—	—	27
Stock-based compensation expense	—	—	4	—	—	—	—	4
Balance, December 31, 2014	5,815,444	$ 59	$ 26,296	$ (1,211)	$ (847)	$ 22,564	$ (677)	$ 46,184

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2013	5,811,394	$ 59	$ 26,322	$ (1,256)	$ (1,002)	$ 21,835	$ (638)	$ 45,320
Net income	—	—	—	—	—	133	—	133
Other comprehensive income (loss)	—	—	—	—	—	—	(51)	(51)
ESOP shares allocated	—	—	(10)	—	33	—	—	23
Stock-based compensation expense	—	—	5	—	—	—	—	5
Balance, December 31, 2013	5,811,394	$ 59	$ 26,317	$ (1,256)	$ (969)	$ 21,968	$ (689)	$ 45,430

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Three Months Ended December 31,	
	2014	2013
	(Unaudited)	
Operating activities		
Net income	$182	$133
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	224	234
Premium amortization on investment securities, net	60	76
Provision for loan losses	420	359
Provision for loss on other real estate owned	25	26
Proceeds from the sales of loans	3,399	219
Gains on sale of loans	(233)	(30)
Gains on sales of investment securities	(30)	(36)
Gains on the sales of other real estate owned	(51)	—
ESOP compensation expense	27	23
Stock-based compensation expense	4	5
Deferred income tax expense	134	—
Decrease in accrued interest receivable	73	1
Increase in surrender value bank owned life insurance	(78)	(83)
Decrease in other assets	64	233
Increase (decrease) in accrued interest payable	(3)	(1)
Decrease in accounts payable and other liabilities	(780)	(2,151)
Net cash provided (used) by operating activities	3,437	(992)
Investing activities		
Net increase in loans receivable	(7,798)	(3,867)
Purchases of loans receivable	(674)	(5,514)
Purchases of investment securities held to maturity	—	(4,419)
Sales of investment securities held to maturity	—	3,036
Sales of investment securities available for sale	2,915	—
Principal repayments on investment securities held to maturity	1,426	1,748
Principal repayments on investment securities available for sale	225	453
Purchases of premises and equipment	(61)	(9)
Investment in other real estate owned	(232)	—
Proceeds from the sale of other real estate owned	3,824	199
Purchase of Federal Home Loan Bank stock	(102)	(612)
Net cash used by investing activities	(477)	(8,985)

Financing activities		
Net decrease in deposits	(2,609)	(12,664)
Net increase (decrease) in escrowed funds	4	(47)
Proceeds from long-term advances	5,701	2,000
Repayments of long-term advances	(3,500)	(4,000)
Net change in short-term advances	50	15,600
Repayments of securities sold under agreements to repurchase	(5,000)	—
Net cash (used) provided by financing activities	(5,354)	889
Net decrease in cash and cash equivalents	(2,394)	(9,088)
Cash and cash equivalents, beginning of period	10,258	17,792
Cash and cash equivalents, end of period	$7,864	$8,704
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$823	$925
Income taxes	$14	$9
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$1,308	$525

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the “Company”), its wholly owned subsidiary, Magyar Bank (the “Bank”), and the Bank’s wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. The September 30, 2014 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU 2014-04) related to; *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The update applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this update clarify when an in-substance repossession or foreclosure occurs and requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. The Company is currently analyzing the impact of the updated guidance on its financial statements.

In May 2014, FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

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Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently analyzing the impact of the guidance on its financial statements.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

NOTE C - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company’s consolidated financial position or results of operations.

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three months ended December 31, 2014 and 2013 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three months ended December 31, 2014 and the three months ended December 31, 2013. The following table shows the Company’s earnings per share for the periods presented:

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	For the Three Months Ended December 31,					
	2014			2013		
	Income	Weighted average shares	Per share Amount	Income	Weighted average shares	Per share Amount
	(In thousands, except per share data)					
Basic EPS						
Net income available to common shareholders	$182	5,817	$0.03	$133	5,813	$0.02
Effect of dilutive securities						
Options and grants	—	1	—	—	2	—
Diluted EPS						
Net income available to common shareholders plus assumed conversion	$182	5,818	$0.03	$133	5,815	$0.02

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three months ended December 31, 2014 and December 31, 2013 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

The Company follows FASB Accounting Standards Codification ("ASC") Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

ASC 718 also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 107, the Company classified share-based compensation for employees and outside directors within "compensation and employee benefits" in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period and expire ten years from issuance. Management recognizes compensation expense for all option grants over the awards' respective requisite service periods. The fair

values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited historical information on the volatility of the Company's stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect at the time of the grant provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares under the Company's restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the three months ended December 31, 2014:

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	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2014	188,276	$ 14.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at December 31, 2014	188,276	$ 14.61	2.2 years	$ —
Exercisable at December 31, 2014	188,276	$ 14.61	2.2 years	$ —

The following is a summary of the Company's non-vested stock awards as of December 31, 2014 and changes during the three months ended December 31, 2014:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at December 31, 2014	5,302	$ 4.41

Stock option and stock award expenses included with compensation expense were $0 and $4,000 for the three months ended December 31, 2014 and 2013.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through December 31, 2014, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the three months ended December 31, 2014. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of December 31, 2014. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meets the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2015) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At December 31, 2014, shares allocated to participants totaled 128,437. Unallocated ESOP shares held in suspense totaled 89,426 at December 31, 2014 and had a fair market value of $754,755. The Company's expense for the ESOP was $27,000 and $23,000 for the three months ended December 31, 2014 and 2013, respectively.

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NOTE F – OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss and the related income tax effects are as follows:

	Three Months Ended December 31,					
	2014			2013		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain (loss) arising during period on:						
Available-for-sale investments	$91	$ (34)	$ 57	$(81)	$ 30	$ (51)
Less reclassification adjustment for net gains realized on available-for-sale investments (a) (b)	(30)	12	(18)	—	—	—
Other comprehensive income (loss), net	$61	$ (22)	$ 39	$(81)	$ 30	$ (51)

(a) Realized gains on securities transactions included in gains on sales of investment securities in the accompanying Consolidated Statements of Operations
(b) Tax effect included in income tax expense in the accompanying Consolidated Statements of Operations

NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

In accordance with ASC 820, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 1 -

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

Securities available for sale

Our available for sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Our securities available for sale portfolio consists of U.S government and government-sponsored enterprise obligations, municipal bonds, and mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

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The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis.

	Fair Value at December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$ 8,621	$ —	$ 8,621	$ —
Private label mortgage-backed securities-residential	382	—	382	—
Total securities available for sale	$ 9,003	$ —	$ 9,003	$ —

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$ 1,295	$ —	$ 1,295	$ —
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,369	—	10,369	—
Private label mortgage-backed securities-residential	406	—	406	—
Total securities available for sale	$ 12,070	$ —	$ 12,070	$ —

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

Impaired Loans

Loans which meet certain criteria are evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Three impairment measurement methods are used, depending upon the collateral securing the asset: 1) the present value of expected future cash flows discounted at the loan’s effective interest rate (the rate of return implicit in the loan); 2) the asset’s observable market price; or 3) the fair value of the collateral, less anticipated selling and disposition costs, if the asset is collateral dependent. The regulatory agencies require this method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Bank's credit administration department, independent from the lender who originated the loan, once the loan is deemed impaired, as described in the previous paragraph. Impaired loans are generally re-evaluated with an updated appraisal within one year of the last appraisal. However, the Company also obtains updated appraisals on performing construction loans that are approaching their maturity date to determine whether or not the fair value of the collateral securing the loan remains sufficient to cover the loan amount prior to considering an extension. The Company discounts the appraised "as is" value of the collateral for estimated selling and disposition costs and compares the resulting fair value of collateral to the outstanding loan amount. If the outstanding loan amount is greater than the discounted fair value, the Company requires a reduction in the outstanding loan balance or additional collateral before considering an extension to the loan. If the borrower is unwilling or unable to reduce the loan balance or increase the collateral securing the loan, it is deemed impaired and the difference between the loan amount and the fair value of collateral, net of estimated selling and disposition costs, is charged off through a reduction of the allowance for loan loss.

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Other Real Estate Owned

The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned is generally classified as Level 3.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at December 31, 2014 and September 30, 2014.

	Fair Value at December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 1,809	$ —	$ —	$ 1,809
Other real estate owned	1,674	—	—	1,674
	$ 3,483	$ —	$ —	$ 3,483

	Fair Value at September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 3,101	$ —	$ —	$ 3,101
Other real estate owned	5,850	—	—	5,850
	$ 8,951	$ —	$ —	$ 8,951

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

Quantitative Information about Level 3 Fair Value Measurements
(Dollars in thousands)

December 31, 2014	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$1,809	Appraisal of collateral (1)	Liquidation expenses (2)	0% to -18.0% (-10.0%)
Other real estate owned	$1,674	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	-7.4% to -34.2% (-15.9%)

(1) Fair value is generally determined through independent appraisals for the underlying collateral, which generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated 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 methods and assumptions were used to estimate the fair value of each class of financial instruments not already disclosed above for which it is practicable to estimate fair value:

Cash and interest earning deposits with banks: The carrying amounts are a reasonable estimate of fair value.

Held to maturity securities: The fair values of our held to maturity securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio.

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Loans: Fair value for the loan portfolio, excluding impaired loans with specific loss allowances, is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of New York ("FHLB") stock: The carrying amount of FHLB stock approximates fair value and considers the limited marketability of the investment.

Bank-owned life insurance: The carrying amounts are based on the cash surrender values of the individual policies, which is a reasonable estimate of fair value.

Deposits: The fair value of deposits with no stated maturity, such as money market deposit accounts, interest-earning checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to current market rates for deposits of similar size, type and maturity.

Accrued interest receivable and payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank of New York advances and securities sold under reverse repurchase agreements: The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Federal Home Loan Bank of New York for borrowings of similar maturity and terms.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letters of credit are considered immaterial.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments carried at cost or amortized cost as of December 31, 2014 and September 30, 2014. This table excludes financial instruments for which the carrying amount approximates level 1 fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest-bearing demand, NOW, and money market savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

	Carrying	Fair	Fair Value Measurement Placement		
	Value	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)				
December 31, 2014					
Financial instruments - assets					
Investment securities held to maturity	$47,495	$47,846	$—	$47,846	$—
Loans	407,773	413,451	—	—	413,451
Financial instruments - liabilities					
Certificate of deposit	137,080	138,439	—	138,439	—
Borrowings	27,751	28,262	—	28,262	—
September 30, 2014					
Financial instruments - assets					
Investment securities held to maturity	$48,963	$48,822	—	$48,822	$—
Loans	404,195	407,947	—	—	407,947
Financial instruments - liabilities					
Certificate of deposit	149,875	151,652	—	151,652	—
Borrowings	30,500	31,045	—	31,045	—

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There were no transfers between fair value measurement placements for the three months ended December 31, 2014.

NOTE H - INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair values of securities available for sale at December 31, 2014 and September 30, 2014:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	$8,674	$ 31	$ (84)	$8,621
Private label mortgage-backed securities-residential	381	2	(1)	382
Total securities available for sale	$9,055	$ 33	$ (85)	$9,003

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$1,294	$ 1	$ —	$1,295
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	10,485	39	(155)	10,369
Private label mortgage-backed securities-residential	404	3	(1)	406
Total securities available for sale	$12,183	$ 43	$ (156)	$12,070

The maturities of the debt securities and mortgage-backed securities available for sale at December 31, 2014 are summarized in the following table:

	December 31, 2014	
	Amortized	Fair

	Cost	Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	—	—
Due after 10 years	—	—
Total debt securities	—	—
Mortgage-backed securities:		
Residential	9,055	9,003
Commercial	—	—
Total	$ 9,055	$ 9,003

The following tables summarize the amortized cost and fair values of securities held to maturity at December 31, 2014 and September 30, 2014:

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	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$6,760	$ 221	$ (104)	$6,877
Mortgage-backed securities - commercial	1,152	—	(2)	1,150
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed-securities - residential	36,014	493	(178)	36,329
Debt securities	3,000	—	(92)	2,908
Private label mortgage-backed securities - residential	569	17	(4)	582
Total securities held to maturity	$47,495	$ 731	$ (380)	$47,846

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
Obligations of U.S. government agencies:				
Mortgage-backed securities - residential	$7,308	$ 223	$ (139)	$7,392
Mortgage-backed securities - commercial	1,168	—	—	1,168
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities - residential	36,894	413	(507)	36,800
Debt securities	3,000	—	(152)	2,848
Private label mortgage-backed securities - residential	593	25	(4)	614
Total securities held to maturity	$48,963	$ 661	$ (802)	$48,822

The maturities of the debt securities and the mortgage-backed securities held to maturity at December 31, 2014 are summarized in the following table:

	December 31, 2014	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	2,000	1,927
Due after 10 years	1,000	981
Total debt securities	3,000	2,908
Mortgage-backed securities:		
Residential	43,343	43,788

Commercial	1,152	1,150
Total	$ 47,495	$ 47,846

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NOTE I – IMPAIRMENT OF INVESTMENT SECURITIES

The Company recognizes credit-related other-than-temporary impairment on debt securities in earnings while noncredit-related other-than-temporary impairment on debt securities not expected to be sold are recognized in other comprehensive income ("OCI").

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by prolonged recession in the U.S. economy, changes in real estate values and interest deferrals.

Investment securities with fair values less than their amortized cost contain unrealized losses. The following tables present the gross unrealized losses and fair value at December 31, 2014 and September 30, 2014 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

		December 31, 2014					
		Less Than 12 Months		12 Months Or Greater		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	3	$—	$ —	$ 2,747	$ (104)	$2,747	$ (104)
Mortgage-backed securities - commercial	1	—	—	1,150	(2)	1,150	(2)
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	12	—	—	18,242	(262)	18,242	(262)
Debt securities	3	—	—	2,908	(92)	2,908	(92)
Private label mortgage-backed securities residential	2	—	—	264	(5)	264	(5)
Total	21	$—	$ —	$ 25,311	$ (465)	$25,311	$ (465)

September 30, 2014		
Less Than 12 Months	12 Months Or Greater	Total

	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Obligations of U.S. government agencies:							
Mortgage-backed securities - residential	3	$—	$—	$2,918	$(139)	$2,918	$(139)
Mortgage-backed securities - commercial	1	—	—	1,168	—	1,168	—
Obligations of U.S. government-sponsored enterprises							
Mortgage-backed securities - residential	20	12,114	(80)	19,960	(582)	32,074	(662)
Debt securities	3	—	—	2,848	(152)	2,848	(152)
Private label mortgage-backed securities residential	2	20	(1)	273	(4)	293	(5)
Total	29	$12,134	$(81)	$27,167	$(877)	$39,301	$(958)

The investment securities listed above currently have fair values less than amortized cost and therefore contain unrealized losses. The Company evaluated these securities and determined that the decline in value was primarily related to fluctuations in the interest rate environment and were not related to any company or industry specific event. There were twenty one investment securities with unrealized losses at December 31, 2014 compare to twenty nine at September 30, 2014.

The Company anticipates full recovery of amortized costs with respect to these securities. The Company does not intend to sell these securities and has determined that it is not more likely than not that the Company would be required to sell these securities prior to maturity or market price recovery. Management has considered factors regarding other than temporarily impaired securities and determined that there are no securities with impairment that is other than temporary as of December 31, 2014 and September 30, 2014.

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NOTE J – LOANS RECEIVABLE, NET AND RELATED ALLOWANCE FOR LOAN LOSSES

Loans receivable, net for the periods ended December 31, 2014 and September 30, 2014 were comprised of the following:

	December 31, 2014	September 30, 2014
	(Dollars in thousands)	
One-to four-family residential	$159,988	$160,335
Commercial real estate	170,347	169,449
Construction	12,782	12,232
Home equity lines of credit	21,056	19,366
Commercial business	36,254	35,035
Other	10,091	10,396
Total loans receivable	410,518	406,813
Net deferred loan costs	194	217
Allowance for loan losses	(2,939)	(2,835)
Total loans receivable, net	$407,773	$ 404,195

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential mortgage loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial real estate loan segment is further disaggregated into three classes. Commercial real estate loans include loans secured by multifamily structures, owner-occupied commercial structures, and non-owner occupied nonresidential properties. The construction loan segment consists primarily of loans to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures and to a lesser extent one-to-four family residential construction loans made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. Construction loans to developers and investors have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan. The commercial business loan segment consists of loans made for the purpose of financing the activities of commercial customers and consists primarily of revolving lines of credit. The consumer loan segment consists primarily of stock-secured installment loans, but also includes unsecured personal loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all segments for possible impairment if the loan either is in nonaccrual status, or is risk rated Substandard and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors

considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the recorded investment in the loan is compared to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral securing the loan, less anticipated selling and disposition costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. If there is a shortfall between the fair value of the loan and the recorded investment in the loan, the Company charges the difference to the allowance for loan loss as a charge-off and carries the impaired loan on its books at fair value. It is the Company's policy to evaluate impaired loans on an annual basis to ensure the recorded investment in a loan does not exceed its fair value.

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The following table presents impaired loans by class, segregated by those for which a specific allowance was required and charged-off and those for which a specific allowance was not necessary at the dates presented:

At December 31, 2014	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$676	$ 21	$ 7,403	$ 8,079	$ 8,501
Commercial real estate	—	—	4,913	4,913	5,944
Construction	442	370	1,741	2,183	3,066
Home equity lines of credit	—	—	129	129	239
Commercial business	11	11	2,020	2,031	2,822
Total impaired loans	$1,129	$ 402	$ 16,206	$ 17,335	$ 20,572

At September 30, 2014	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
One-to four-family residential	$1,733	$ 42	$ 6,990	$ 8,723	$ 10,830
Commercial real estate	—	—	5,046	5,046	6,205
Construction	442	332	1,836	2,278	3,160
Home equity lines of credit	—	—	829	829	987
Commercial business	11	11	331	342	1,133
Total impaired loans	$2,186	$ 385	$ 15,032	$ 17,218	$ 22,315

The following table presents the average recorded investment in impaired loans for the periods indicated. There was no interest income recognized on impaired loans during the periods presented.

Three Months
Ended December 31, 2014
(Dollars in thousands)

One-to four-family residential	$	8,401
Commercial real estate		4,980
Construction		2,231
Home equity lines of credit		479
Commercial business		1,187
Average investment in impaired loans	$	17,277

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	Three Months Ended December 31, 2013 (Dollars in thousands)	
One-to four-family residential	$	14,257
Commercial real estate		5,560
Construction		3,196
Home equity lines of credit		1,027
Commercial business		88
Average investment in impaired loans	$	24,126

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than three months past due are considered Substandard. Loans classified as Doubtful have all the weaknesses as those classified Substandard, with the added characteristic that the weaknesses present make “collection or liquidation in full” on the basis of currently existing facts, conditions and values highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as severe delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Asset Review Committee performs monthly reviews of all commercial relationships internally rated 6 (“Watch”) or worse. Confirmation of the appropriate risk grade is performed by an external Loan Review Company that semi-annually reviews and assesses loans within the portfolio. Generally, the external consultant reviews commercial relationships greater than $500,000 and/or criticized relationships greater than $250,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a monthly basis.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the Bank’s internal risk rating system at the dates presented:

Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)				

December 31, 2014					
One-to four-family residential	$154,109	$ —	$ 5,879	$ —	$159,988
Commercial real estate	165,231	818	3,192	1,106	170,347
Construction	6,754	—	6,028	—	12,782
Home equity lines of credit	19,601	—	1,455	—	21,056
Commercial business	34,255	—	1,999	—	36,254
Other	10,091	—	—	—	10,091
Total	$390,041	$ 818	$ 18,553	$ 1,106	$410,518

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	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
September 30, 2014					
One-to four-family residential	$153,878	$—	$ 6,457	$—	$160,335
Commercial real estate	158,501	6,179	3,663	1,106	169,449
Construction	6,110	—	6,122	—	12,232
Home equity lines of credit	17,209	—	2,157	—	19,366
Commercial business	34,725	—	310	—	35,035
Other	10,396	—	—	—	10,396
Total	$380,819	$6,179	$ 18,709	$ 1,106	$406,813

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans at the dates presented:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non-Accrual	Total Loans
	(Dollars in thousands)						
December 31, 2014							
One-to four-family residential	$155,673	$ —	$ 833	$ 3,482	$4,315	$3,482	$159,988
Commercial real estate	167,532	245	339	2,231	2,815	2,231	170,347
Construction	10,652	—	—	2,130	2,130	2,130	12,782
Home equity lines of credit	20,009	160	76	811	1,047	811	21,056
Commercial business	34,291	—	34	1,929	1,963	1,929	36,254
Other	10,091	—	—	—	—	—	10,091
Total	$398,248	$ 405	$ 1,282	$ 10,583	$12,270	$10,583	$410,518

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due	Non-Accrual	Total Loans
	(Dollars in thousands)						
September 30, 2014							
One-to four-family residential	$155,825	$ 75	$ 256	$ 4,179	$4,510	$4,179	$160,335
Commercial real estate	166,360	—	918	2,171	3,089	2,171	169,449
Construction	9,954	—	—	2,278	2,278	2,278	12,232
Home equity lines of credit	18,483	—	—	883	883	883	19,366
Commercial business	33,105	1,600	56	274	1,930	274	35,035
Other	10,396	—	—	—	—	—	10,396
Total	$394,123	$ 1,675	$ 1,230	$ 9,785	$12,690	$9,785	$406,813

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of NPLs.

The Bank’s methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance.

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Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative and economic factors.

The loans are segmented into classes based on their inherent varying degrees of risk, as described above. Management tracks the historical net charge-off activity by segment and utilizes this figure, as a percentage of the segment, as the general reserve percentage for pooled, homogenous loans that have not been deemed impaired. Typically, an average of losses incurred over a defined number of consecutive historical years is used. A 5 year history is currently utilized for all loan segments except for construction loans, where the highest single year loss percentage of the most recent five years is used in place of a 5 year average.

Non-impaired credits are segregated for the application of qualitative factors. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources include: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Since loans individually evaluated for impairment are promptly written down to their fair value, typically there is no portion of the ALL for loans individually evaluated for impairment.

The following table summarizes the ALL by loan category and related activity for the three months ended December 31, 2014 and 2013:

	One-to-Four Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance- September 30, 2014	$402	$ 826	$ 784	$ 62	$ 643	$ 9	$ 109	$2,835
Charge-offs	(12)	(193)	—	(147)	—	(1)	—	(353)
Recoveries	—	—	37	—	—	—	—	37
Provision	84	199	(73)	151	90	(2)	(29)	420

Balance- December 31, 2014	$474	$ 832	$ 748	$ 66	$ 733	$ 6	$ 80	$2,939

	One-to-Four Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Balance- September 30, 2013	$844	$ 852	$ 604	$ 125	$ 452	$ 9	$ 127	$3,013
Charge-offs	(108)	—	(75)	—	—	—	—	(183)
Recoveries	9	—	—	—	2	—	—	11
Provision	254	(7)	29	12	72	(9)	8	359
Balance- December 31, 2013	$999	$ 845	$ 558	$ 137	$ 526	$ —	$ 135	$3,200

The following tables summarize the ALL by loan category, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2014 and September 30, 2014:

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	One-to-Four Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - December 31, 2014	$474	$832	$748	$66	$733	$6	$ 80	$2,939
Individually evaluated for impairment	21	—	370	—	11	—	—	402
Collectively evaluated for impairment	453	832	378	66	722	6	80	2,537
Loans receivable:								
Balance - December 31, 2014	$159,988	$170,347	$12,782	$21,056	$36,254	$10,091		$410,518
Individually evaluated for impairment	8,079	4,913	2,183	129	2,031	—		17,335
Collectively evaluated for impairment	151,909	165,434	10,599	20,927	34,223	10,091		393,183

	One-to-Four Family Residential	Commercial Real Estate	Construction	Home Equity Lines of Credit	Commercial Business	Other	Unallocated	Total
	(Dollars in thousands)							
Allowance for Loan Losses:								
Balance - September 30, 2014	$402	$826	$784	$62	$643	$9	$ 109	$2,835
Individually evaluated for impairment	42	—	332	—	11	—	—	385
Collectively evaluated for impairment	360	826	452	62	632	9	109	2,450
Loans receivable:								
Balance - September 30, 2014	$160,335	$169,449	$12,232	$19,366	$35,035	$10,396		$406,813
Individually evaluated for impairment	8,723	5,046	2,278	829	342	—		17,218
Collectively evaluated for impairment	151,612	164,403	9,954	18,537	34,693	10,396		389,595

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the segmentation of the loan portfolio into homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

The Bank has adopted FASB issue ASU No. 2011-02 on the determination of whether a loan restructuring is considered to be a Troubled Debt Restructuring (“TDR”). A TDR is a loan that has been modified whereby the Bank has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Bank to maximize the ultimate recovery of a loan. TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a modification that would otherwise not be granted to the borrower. The types of concessions granted generally include, but are not limited to interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal.

There were no TDRs for the three months ended December 31, 2014 and 2013.

NOTE K - DEPOSITS

A summary of deposits by type of account are summarized as follows:

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	2014 December 31	September 30
	(Dollars in thousands)	
Demand accounts	$83,547	$ 84,306
Savings accounts	76,668	65,123
NOW accounts	46,418	47,029
Money market accounts	102,129	102,118
Certificates of deposit	115,115	126,661
Retirement certificates	21,965	23,214
	$445,842	$ 448,451

NOTE L – INCOME TAXES

The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The valuation allowance is assessed by management on a quarterly basis and adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. In assessing whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, management considers projections of future taxable income, the projected periods in which current temporary differences will be deductible, the availability of carry forwards, feasible and permissible tax planning strategies and existing tax laws and regulations. Due to the uncertainty of the Company's ability to realize the benefit of certain deferred tax assets within statutory time limits, the net deferred tax assets are partially offset by a valuation allowance at December 31, 2014, the amount of which has not materially changed from that in place at September 30, 2014.

A reconciliation of income tax between the amounts calculated based upon pre-tax income at the Company’s federal statutory rate and the amounts reflected in the consolidated statements of operations are as follows:

	For the Three Months Ended December 31,	
	2014	2013

	(in thousands)	
Income tax expense at 34% statutory federal tax rate	$ 87	$ 59
State tax expense	11	11
Other	(24)	(29)
Income tax expense	$ 74	$ 41

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company uses derivative financial instruments, such as interest rate floors and collars, as part of its interest rate risk management. Interest rate caps and floors are agreements whereby one party agrees to pay or receive a floating rate of interest on a notional principal amount for a predetermined period of time if certain market interest rate thresholds are met. The Company considers the credit risk inherent in these contracts to be negligible.

As of December 31, 2014 and September 30, 2014, the Company did not hold any interest rate floors or collars.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

	2014 December 31	September 30
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk		
Letters of credit	$ 1,134	$ 884
Unused lines of credit	42,137	43,644
Fixed rate loan commitments	8,153	1,900
Variable rate loan commitments	1,210	8,500
	$ 52,634	$ 54,928

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this filing and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result "are expected to," "will continue," "is anticipated," "estimated," "projected," "believes", or similar expressions are intended to identify "forward looking statements." Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those risks previously disclosed in the Company's filings with the SEC, general economic conditions, changes in interest rates, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services, and with respect to the loans extended by the Bank and real estate owned, the following: risks related to the economic environment in the market areas in which the Bank operates, particularly with respect to the real estate market in New Jersey; the risk that the value of the real estate securing these loans may decline in value; and the risk that significant expense may be incurred by the Company in connection with the resolution of these loans.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Critical accounting policies may involve complex subjective decisions or assessments. We consider the following to be our critical accounting policies.

Other-Than-Temporary Impairments on Securities. If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are "temporary" or "other-than-temporary" in accordance with applicable accounting guidance. The Company accounts for temporary impairments based upon security classification as either available for sale, held to maturity or trading. Temporary impairments on "available for sale" securities are recognized, on a tax-effected basis, through AOCI with offsetting entries adjusting the carrying value of the security and the balance of deferred taxes. Conversely, the Company does not adjust the carrying value of "held to maturity" securities for temporary impairments, although information concerning the amount and duration of impairments on held to maturity securities is generally disclosed in periodic financial statements. The carrying value of securities held in a trading portfolio is adjusted to their fair value through earnings on a daily basis. However, the Company maintained no securities in trading

portfolios at or during the periods presented in these financial statements.

The Company accounts for other-than-temporary impairments based upon several considerations. First, other-than-temporary impairments on securities that the Company has decided to sell as of the close of a fiscal period, or will, more likely than not, be required to sell prior to the full recovery of the their fair value to a level equal to or exceeding their amortized cost, are recognized in operations. If neither of these criteria apply, then the other-than-temporary impairment is separated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on an other-than-temporarily impaired security fall below its amortized cost while the noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related, other-than-temporary impairments in earnings, while noncredit-related, other-than-temporary impairments on debt securities are recognized, net of deferred taxes, in AOCI.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover credit losses in the loan portfolio both probable and reasonably estimable at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. Due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses, the methodology for determining the allowance for loan losses is considered a critical accounting policy by management.

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As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as impaired through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan and discounted cash flows. Specific impairment allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly greater than the allowances we have established, which could have a material negative effect on our financial results.

Other Real Estate Owned. Real estate acquired through foreclosure, or a deed-in-lieu of foreclosure, is recorded at fair value less estimated selling costs at the date of acquisition or transfer, and subsequently at the lower of its new cost or fair value less estimated selling costs. Adjustments to the carrying value at the date of acquisition or transfer are charged to the allowance for loan losses. The carrying value of the individual properties is subsequently adjusted to the extent it exceeds estimated fair value less estimated selling costs, at which time a provision for losses on such real estate is charged to operations.

Appraisals are critical in determining the fair value of the other real estate owned amount. Assumptions for appraisals are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable.

Deferred Income Taxes. The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

In accordance with ASC 820, Fair Value Measurements and Disclosures, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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Level 1-Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2-Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3-Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Comparison of Financial Condition at December 31, 2014 and September 30, 2014

Total assets decreased $5.9 million, or 1.1%, to $524.5 million during the three months ended December 31, 2014. The decrease was attributable to lower interest-bearing deposits with banks, investment securities and OREO balances.

Cash and interest-bearing deposits with banks decreased $2.4 million, or 23.3%, to $7.9 million at December 31, 2014 from $10.3 million at September 30, 2014 due to loan originations and the repayment of matured securities sold under agreements to repurchase.

At December 31, 2014, investment securities totaled $56.5 million, reflecting a decrease of $4.5 million, or 7.4%, from September 30, 2014. In addition to monthly payments from mortgage-backed securities, the Bank sold three securities from its available-for-sale portfolio totaling $2.9 million for a gain of $30,000. Investment securities at December 31, 2014 consisted of $52.5 million in mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, $3.0 million in U.S. government-sponsored enterprise debt securities, and $951,000 in “private-label” mortgage-backed securities. There were no other-than-temporary-impairment charges for the Bank’s investment securities for the three months ended December 31, 2014.

Total loans receivable, net of allowance for loan losses, increased $3.6 million during the three months ended December 31, 2014 to $407.8 million from $404.2 million at September 30, 2014. Total loans receivable increased $3.7 million during the three months ended December 31, 2014 to $410.5 million and were comprised of $160.0 million (39.0%) one-to-four family residential mortgage loans, $170.3 million (41.4%) commercial real estate loans, $36.3 million (8.8%) commercial business loans, $21.0 million (5.1%) home equity lines of credit loans, $12.8 million (3.1%) construction loans and $10.1 million (2.6%) other loans. Expansion of the portfolio during the quarter ended December 31, 2014 occurred primarily in home equity lines of credit loans, which increased $1.7 million, followed by commercial business loans, which increased $1.2 million, commercial real estate loans, which increased $898,000, and construction loans, which increased $550,000. Offsetting the increases were decreases in 1-4 family residential mortgage loans, which decreased $347,000, and other consumer loans, which fell $305,000.

Total non-performing loans (“NPLs”), defined as loans 90 days or more delinquent, increased by $798,000, or 8.2%, to $10.6 million at December 31, 2014 from $9.8 million at September 30, 2014. The ratio of non-performing loans to total loans was 2.6% at December 31, 2014 compared to 2.4% at September 30, 2014.

Included in NPLs were twenty residential mortgage loans totaling $3.5 million, four commercial real estate loans totaling $2.2 million, two construction loans totaling $2.1 million, five commercial business loans totaling $1.9 million, and nine home equity lines of credit loans totaling $811,000.

The allowance for loan loss increased by $104,000 during the three months ended December 31, 2014 to $2.9 million from $2.8 million September 30, 2014. The increase during the quarter was attributable to the increase in non-performing loans and overall growth in the loan portfolio.

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The allowance for loan losses as a percentage of non-performing loans decreased to 27.8% at December 31, 2014 from 29.0% at September 30, 2014. Our allowance for loan losses as a percentage of total loans increased to 0.72% at December 31, 2014 from 0.70% at September 30, 2014.

Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the possible future increases in non-performing loans and charge-offs, the possible additional deterioration of collateral values, and the possible continuation or deterioration of the current economic environment.

Adverse economic conditions have led to high levels of NPLs. The Company determines the carrying value of loans secured by real estate obtaining an updated third-party appraisal of the real estate collateral. Given the deterioration in the economy and, specifically, the housing market, updated valuations of the collateral reflect depreciation from earlier assessments conducted prior to the economic recession. To the extent that an updated valuation of the collateral is insufficient to cover a collateral-dependent loan, the Company reduces the balance of the loan via a charge to the allowance for loan loss. Specific reserves for loan loss may be established for estimated selling and disposition costs as well as portions of the loan expected to be recovered within a reasonable time period.

Non-performing loans secured by one-to four-family residential properties including home equity lines of credit decreased $769,000 to $4.3 million at December 31, 2014 from $5.1 million at September 30, 2014. The Company has not and does not intend to originate or purchase sub-prime loans or option-ARM loans. During the three months ended December 31, 2014, Magyar Bank charged off $159,000 in non-performing residential and home equity line of credit loans through a reduction of its allowance for loan loss.

At December 31, 2014, non-performing construction loans decreased $148,000, or 6.5%, to $2.1 million from $2.3 million at September 30, 2014. The reduction resulted from a partial repayment of a non-performing construction loan. Magyar Bank is determining the proper course of action to collect the principal outstanding on these loans including foreclosure of collateral and pursuit of personal guarantors on the loans. During the three months ended December 31, 2014, there were no charge offs on non-performing construction loans.

Non-performing commercial real estate loans increased $60,000, or 2.8%, to $2.2 million during the quarter ended December 31, 2014. Magyar Bank was proceeding with foreclosure of the properties securing these loans at December 31, 2014. During the three months ended December 31, 2014, Magyar Bank charged off $193,000 in non-performing commercial real estate loans through a reduction of its allowance for loan loss.

Non-performing commercial business loans increased $1.6 million to $1.9 million at December 31, 2014 from $274,000 at September 30, 2014. Magyar Bank is determining the proper course of action to collect the principal outstanding on these loans which will include foreclosure proceedings for those loans secured by real estate. During the three months ended December 31, 2014 there were no charge-offs on commercial business loans.

Impaired loans are reported at the lower of amortized cost or fair value, based upon updated independent appraisals of collateral or the discounted value of expected loan repayments. Valuations of such loans are performed on an annual basis with charge-offs recorded when appraised values, net of estimated selling and disposition costs, are less than the loan balances. Specific reserves may be used on occasions where an updated valuation is unavailable or where a short-term resolution to the impairment is anticipated. At December 31, 2014, the Bank held specific reserves of $402,000 for $17.3 million of impaired loans.

Other real estate owned decreased $2.3 million, or 13.0%, to $15.1 million during the quarter ended December 31, 2014. The decrease was due to the sale of seven properties totaling $3.8 million for a gain of $54,000. Offsetting the decrease in OREO was the foreclosure of property securing four non-performing loans totaling $1.3 million and improvements totaling $232,000. The loans were recorded as $1.5 million at September 30, 2014, written down $193,000 during the current quarter, and transferred to OREO with a carrying balance of $1.3 million. The Bank is determining the proper course of action for its other real estate owned, which may include holding the properties until the real estate market improves, selling the properties and completing partially completed homes for either rental or sale.

Total deposits decreased $2.6 million, or 0.6%, to $445.8 million during the three months ended December 31, 2014. The outflow in deposits occurred in certificates of deposit (including individual retirement accounts), which decreased $12.8 million, or 8.5%, to $137.1 million, non-interest checking accounts which decreased $759,000, or 0.9%, to $83.5 million, interest-bearing checking accounts, which increased $611,000, or 1.3%, to $46.4 million, and money market accounts, which decreased $143,000, or 0.1%, to $102.0 million. Partially offsetting the decreases was an increase in savings accounts of $11.5 million, or 17.7%, to $76.7 million. The Company held $6.5 million and $9.0 million in brokered certificates of deposit at December 31, 2014 and September 30, 2014, respectively.

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Federal Home Loan Bank of New York advances and securities sold under agreements to repurchase decreased $2.7 million to $27.8 million at December 31, 2014 from $30.5 million at September 30, 2014.

Stockholders' equity increased $252,000, or 0.5%, to $46.2 million at December 31, 2014 from $45.9 million at September 30, 2014. The increase was primarily due to the Company's results from operations during the three month period.

The Company did not repurchase shares of its common stock during the three months ended December 31, 2014. Through December 31, 2014, the Company had repurchased 81,000 shares at an average price of $8.33 pursuant to the second stock repurchase plan, which has reduced outstanding shares to 5,815,444.

The Company's book value per share increased to $7.94 at December 31, 2014 from $7.90 at September 30, 2014. The increase was due to the Company's results from operations.

Average Balance Sheets for the Three Months Ended December 31, 2014 and 2013

The table on the following page presents certain information regarding the Company's financial condition and net interest income for the three months ended December 31, 2014 and 2013. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

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	For the Three Months Ended December 31,					
	2014			2013		
	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)	Average Balance	Interest Income/ Expense	Yield/Cost (Annualized)
	(Dollars In Thousands)					
Interest-earning assets:						
Interest-earning deposits	$9,828	$ 12	0.49%	$7,262	$ 5	0.30%
Loans receivable, net	405,358	4,459	4.36%	402,869	4,539	4.47%
Securities						
Taxable	58,974	318	2.14%	69,146	408	2.34%
Tax-exempt [1]	—	—	0.00%	11	—	9.02%
FHLB of NY stock	1,772	23	5.23%	2,369	21	3.46%
Total interest-earning assets	475,932	4,812	4.01%	481,657	4,973	4.10%
Noninterest-earning assets	53,580			54,069		
Total assets	$529,512			$535,726		
Interest-bearing liabilities:						
Savings accounts [2]	$72,580	104	0.57%	$51,781	26	0.20%
NOW accounts [3]	144,431	93	0.25%	145,953	83	0.22%
Time deposits [4]	145,340	405	1.11%	154,497	535	1.37%
Total interest-bearing deposits	362,351	602	0.66%	352,231	644	0.73%
Borrowings	29,226	219	2.97%	40,814	281	2.73%
Total interest-bearing liabilities	391,577	821	0.83%	393,045	925	0.93%
Noninterest-bearing liabilities	91,787			97,212		
Total liabilities	483,364			490,257		
Retained earnings	46,148			45,469		
Total liabilities and retained earnings	$529,512			$535,726		
Net interest and dividend income		$ 3,991			$ 4,048	
Interest rate spread			3.18%			3.17%
Net interest-earning assets	$84,355			$88,612		
Net interest margin [5]			3.33%			3.33%
Average interest-earning assets to average interest-bearing liabilities	121.54%			122.55%		

(1) Calculated using 34% tax rate.
(2) Includes passbook savings, money market passbook and club accounts.
(3) Includes interest-bearing checking and money market accounts.
(4) Includes certificates of deposits and individual retirement accounts.
(5) Calculated as annualized net interest income divided by average total interest-earning assets.

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Comparison of Operating Results for the Three Months Ended December 31, 2014 and 2013

Net Income. Net income increased $49,000, or 36.8%, to $182,000 from $133,000 during the three-month period ended December 31, 2014 compared with the three-month period ended December 31, 2013 due to higher gains from the sales of loans. Gains from sales of loans increased $203,000 to $233,000 for the current quarter compared with $30,000 for the quarter ended December 31, 2013. Partially offsetting the higher gains were lower net interest and dividend income, higher provisions for loan loss and higher income tax expenses.

Net Interest and Dividend Income. Net interest and dividend income decreased $57,000 to $4.0 million for the quarter ended December 31, 2014. The Company's net interest margin remained 3.33% for the quarter ended December 31, 2014 compared to the quarter ended December 31, 2013. The yield on the Company's interest-earning assets fell 9 basis points to 4.01% for the three months ended December 31, 2014 from 4.10% for the three months ended December 31, 2013 primarily due to the lower overall interest rate environment. The cost of interest-bearing liabilities fell 10 basis points to 0.83% for the three months ended December 31, 2014 from 0.93% for the three months ended December 31, 2013. The decrease in the cost of interest-bearing liabilities was attributable to the lower rate environment and a more favorable funding composition comprised of a larger percentage of lower-cost deposit account balances.

Interest and Dividend Income. Interest and dividend income decreased $161,000 to $4.8 million for the three months ended December 31, 2014 from $5.0 million for the three months ended December 31, 2013. The decline was attributable to a lower yield on interest-earning assets, which declined 9 basis points to 4.01% for the quarter ended December 31, 2014, and a decline in the average balances of interest-earning assets, which decreased $5.7 million, or 1.2%, compared with the prior year period.

Interest earned on loans was $4.5 million for the three months ended December 31, 2014 and 2013. A $2.5 million increase in the average balance of loans was offset by an 11 basis point decrease in the average yield on such loans to 4.36% from 4.47%. The decrease in yield between the two periods was due primarily to the lower market interest rate environment.

Interest earned on our investment securities, including interest-earning deposits and excluding Federal Home Loan Bank of New York stock, decreased $83,000, or 20.1%, to $330,000 for the three months ended December 31, 2014 from $413,000 December 31, 2013, due to a $7.6 million, or 10.0%, decrease in the average balance of such securities to $68.8 million for the three months ended December 31, 2014 from $76.4 million for the three months ended December 31, 2013. The average yield decreased 25 basis points to 1.90% for the three months ended December 31, 2014 from 2.15% for the three months ended December 31, 2013 due to the lower overall interest rate market.

Interest Expense. Interest expense decreased $104,000, or 11.2%, to $821,000 for the three months ended December 31, 2014 from $925,000 for the three months ended December 31, 2013. The average balance of interest-bearing

liabilities decreased $1.5 million, or 0.4%, between the two periods, while the cost of such liabilities fell 10 basis points to 0.83% for the quarter ended December 31, 2014 compared with the prior year period.

The average balance of interest bearing deposits increased $10.1 million to $362.3 million from $352.2 million while the average cost of such deposits decreased 7 basis points to 0.66% from 0.73% in the lower market interest rate environment. As a result, interest expense on deposits decreased $42,000 to $602,000 for the three months ended December 31, 2014 from $644,000 for the three months ended December 31, 2013.

Interest expense on advances and securities sold under agreements to repurchase decreased $62,000, or 22.1%, to $219,000 for the three months ended December 31, 2014 from $281,000 for the prior year period due to the average balance of such borrowings declined $11.6 million to $29.2 million for the three months ended December 31, 2014 from $40.8 million December 31, 2013.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of $420,000 for the three months ended December 31, 2014 compared to a provision of $359,000 for the prior year period. The provision for loan losses increased $61,000, or 17.0%, during the current period compared with the prior year period primarily attributable to a $798,000 increase in non-performing loans to $10.6 million at December 31, 2014 from $9.8 million at September 30, 2014 and to a $2.5 million increase in the average balance of loan receivables to $405.4 million at December 31, 2014 from $402.9 million at December 31, 2013.

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Net charge-offs were $316,000 for the three months ended December 31, 2014 compared to $172,000 for the three months ended December 31, 2013. The Bank reduced the carrying balance on six loans totaling $1.3 million by $353,000 to the appraised fair value of collateral, net of estimated disposition costs, securing the loans. These consisted of three residential mortgage loans, two commercial real estate loans and one consumer loan. In addition, the Company received a partial recovery of a loan previously charged-off totaling $37,000 during the quarter.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income increased $192,000, or 51.9%, to $562,000 during the three months ended December 31, 2014 compared to $370,000 for the three months ended December 31, 2013. The increase in non-interest income was attributable to higher net gains on the sales of loans, which were $233,000 for the three months ended December 31, 2014 compared with $30,000 for the three months ended December 31, 2013. The Company sold four residential mortgage loans for a gain of $42,000 and the guaranteed portion of four SBA loans for a gain of $191,000.

Other Expenses. During the three months ended December 31, 2014, non-interest expenses decreased $8,000 to $3.9 million. Other real estate owned (“OREO”) expenses declined $75,000 and loan servicing expenses declined $57,000. Partially offsetting these declines was higher compensation and employee benefit expenses, which increased by $69,000 due to annual merit increases and higher other expenses, which increased $43,000.

Income Tax Expense. The Company recorded tax expense of $74,000 on income of $256,000 for the three months ended December 31, 2013, compared to $41,000 on income of $174,000 for the three months ended December 31, 2013. The effective tax rate for the three months ended December 31, 2014 was 28.9% compared to 23.6% for the three months ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company’s liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company’s short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the three months ended December 31, 2014 in the ability of the Company and its subsidiaries to fund their operations.

At December 31, 2014, the Company had commitments outstanding under letters of credit of $1.1 million, commitments to originate loans of $9.4 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $42.1 million. There has been no material change during the three months ended December 31, 2014 in any of the Company’s other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank has committed to the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance to maintain capital at or above well capitalized levels. At December 31, 2014, the Bank’s Tier 1 capital as a percentage of the Bank's total assets was 8.43%, and total qualifying capital as a percentage of risk-weighted assets was 12.72%.

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Item 3- Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4 – Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There has been no change in the Company's internal control over financial reporting during its three months ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal proceedings
None.

Item 1A. Risk Factors
Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a.) Not applicable.

b.) Not applicable.

c.) The Company did not repurchase shares of its common stock during the three months ended December 31, 2014. Through December 31, 2013, the Company had repurchased 81,000 shares at an average price of $8.33.

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information

a.) Not applicable.

b.) None.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at December 31, 2014 and September 30, 2014; (ii) the Consolidated Statements of Operations for the three months ended December 31, 2014 and 2013; (iii) the Consolidated Statements of Comprehensive Income for the three months ended December 31, 2014 and 2013; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended December 31, 2014 and 2013; (v) the Consolidated Statements of Cash Flows for the three months ended December 31, 2014 and 2013; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGYAR BANCORP, INC.
(Registrant)

Date: February 12, 2015
/s/ John S. Fitzgerald
John S. Fitzgerald
President and Chief Executive Officer

Date: February 12, 2015 /s/ Jon R. Ansari
Jon R. Ansari
Executive Vice President and Chief Financial Officer