TIMBERLAND BANCORP INC
Form 10-Q
May 08, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

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

Commission file number 0-23333

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

Washington	91-1863696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer ___ Accelerated Filer Non-accelerated filer __ Smaller reporting company _X_

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

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

CLASS	SHARES OUTSTANDING AT MAY 1, 2015
Common stock, $.01 par value	7,053,636

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2015 and September 30, 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 31, 2015	September 30, 2014
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$12,474	$11,818
Interest-bearing deposits in banks	69,619	60,536
Total cash and cash equivalents	82,093	72,354
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	41,868	35,845
Investment securities - held to maturity, at amortized cost (estimated fair value $6,135 and $6,274)	5,106	5,298
Investment securities - available for sale	1,486	2,857
Federal Home Loan Bank of Seattle (“FHLB”) stock	5,135	5,246
Loans receivable	592,402	575,280
Loans held for sale	2,252	899
Less: Allowance for loan losses	(10,382)	(10,427)
Net loans receivable	584,272	565,752
Premises and equipment, net	17,422	17,679
Other real estate owned (“OREO”) and other repossessed assets, net	7,866	9,092
Accrued interest receivable	2,060	1,910
Bank owned life insurance (“BOLI”)	17,900	17,632
Goodwill	5,650	5,650
Core deposit intangible (“CDI”)	—	3
Mortgage servicing rights (“MSRs”)	1,484	1,684
Other assets	3,928	4,563
Total assets	$776,270	$745,565
Liabilities and shareholders’ equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$117,481	$106,417
Interest-bearing	525,792	508,699
Total deposits	643,273	615,116
FHLB advances	45,000	45,000
Other liabilities and accrued expenses	2,573	2,671
Total liabilities	690,846	662,787

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
March 31, 2015 and September 30, 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 31, 2015	September 30, 2014
Shareholders' equity		
Common stock, $.01 par value; 50,000,000 shares authorized;		
7,052,636 shares issued and outstanding - March 31, 2015 7,047,336 shares issued and outstanding - September 30, 2014	$10,892	$10,773
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(1,058)	(1,190)
Retained earnings	75,937	73,534
Accumulated other comprehensive loss	(347)	(339)
Total shareholders' equity	85,424	82,778
Total liabilities and shareholders' equity	$776,270	$745,565

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended March 31, 2015 and 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Interest and dividend income				
Loans receivable	$7,352	$7,255	$14,861	$14,573
Investment securities	55	64	120	124
Dividends from mutual funds and FHLB stock	6	6	13	15
Interest-bearing deposits in banks	114	87	219	181
Total interest and dividend income	7,527	7,412	15,213	14,893
Interest expense				
Deposits	495	514	1,004	1,064
FHLB advances	465	461	940	933
Total interest expense	960	975	1,944	1,997
Net interest income	6,567	6,437	13,269	12,896
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	6,567	6,437	13,269	12,896
Non-interest income				
Recoveries (other than temporary impairment “OTTI”) on investment securities	—	89	—	86
Adjustment for portion of OTTI (transferred from) recorded as other comprehensive income (loss) before taxes	(1)	—	(1)	1
Net recoveries (OTTI) on investment securities	(1)	89	(1)	87
Gain (loss) on sale of investment securities available for sale, net	—	(32)	45	(32)
Service charges on deposits	852	883	1,737	1,874
ATM and debit card interchange transaction fees	643	573	1,273	1,158
BOLI net earnings	131	143	268	258
Gain on sales of loans, net	348	172	584	474
Escrow fees	56	30	98	66
Fee income from non-deposit investment sales	10	16	12	44
Other	175	139	322	279
Total non-interest income, net	2,214	2,013	4,338	4,208

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and six months ended March 31, 2015 and 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Non-interest expense				
Salaries and employee benefits	$3,284	$3,434	$6,680	$6,813
Premises and equipment	751	647	1,476	1,340
Advertising	173	172	361	349
OREO and other repossessed assets, net	349	397	425	555
ATM and debit card interchange transaction fees	255	358	593	585
Postage and courier	114	110	218	207
Amortization of CDI	—	29	3	58
State and local taxes	119	121	236	238
Professional fees	223	211	399	394
Federal Deposit Insurance Corporation ("FDIC") insurance	148	160	308	321
Other insurance	38	40	75	79
Loan administration and foreclosure	76	138	119	248
Data processing and telecommunications	471	329	850	659
Deposit operations	219	225	395	423
Other	434	383	790	726
Total non-interest expense	6,654	6,754	12,928	12,995
Income before federal income taxes	2,127	1,696	4,679	4,109
Provision for federal income taxes	676	537	1,501	1,339
Net income	1,451	1,159	3,178	2,770
Preferred stock dividends	—	—	—	(136)
Preferred stock discount accretion	—	—	—	(70)
Net income to common shareholders	$1,451	$1,159	$3,178	$2,564
Net income per common share				
Basic	$0.21	$0.17	$0.46	$0.37
Diluted	$0.21	$0.16	$0.45	$0.37
Weighted average common shares outstanding				
Basic	6,898,192	6,856,633	6,895,038	6,855,142
Diluted	7,071,792	7,033,979	7,067,621	7,005,877
Dividends paid per common share	$0.06	$0.04	$0.11	$0.07

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended March 31, 2015 and 2014
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net income	$1,451	$1,159	$3,178	$2,770
Other comprehensive income (loss), net of taxes:				
Unrealized holding gain (loss) on investment securities available for sale, net of tax	8	(69)	(25)	(67)
Change in OTTI on investment securities held to maturity, net of tax:				
Additional amount recovered related to credit loss for which OTTI was previously recognized	1	1	1	—
Amount reclassified to credit loss for previously recorded market loss	1	—	1	—
Accretion of OTTI on investment securities held to maturity, net of tax	7	12	15	24
Total other comprehensive income (loss), net of tax	17	(56)	(8)	(43)
Total comprehensive income	$1,468	$1,103	$3,170	$2,727

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended March 31, 2015 and the year ended September 30, 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	Number of Shares		Amount					
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
Balance, September 30, 2013	12,065	7,045,036	$11,936	$10,570	$(1,454)	$68,998	$ (362)	$89,688
Net income	—	—	—	—	—	5,850	—	5,850
Accretion of preferred stock discount	—	—	70	—	—	(70)	—	—
Redemption of preferred stock	(12,065)	—	(12,006)	—	—	(59)	—	(12,065)
Exercise of stock options	—	5,000	—	23	—	—	—	23
Forfeiture of MRDP (1) shares	—	(2,700)	—	—	—	—	—	—
5% preferred stock dividends	—	—	—	—	—	(58)	—	(58)
Common stock dividends ($0.16 per common share)	—	—	—	—	—	(1,127)	—	(1,127)
Earned ESOP shares, net of tax	—	—	—	64	264	—	—	328
MRDP compensation expense, net of tax	—	—	—	4	—	—	—	4
Stock option compensation expense	—	—	—	112	—	—	—	112
Unrealized holding loss on investment securities available for sale, net of tax	—	—	—	—	—	—	(63)	(63)
Change in OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	34	34
Accretion of OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	52	52
	—	7,047,336	—	10,773	(1,190)	73,534	(339)	82,778

Balance, September 30, 2014								
Net income	—	—	—	—	—	3,178	—	3,178
Exercise of stock options	—	5,300	—	25	—	—	—	25
Common stock dividends ($0.11 per common share)	—	—	—	—	—	(775)	—	(775)
Earned ESOP shares, net of tax	—	—	—	36	132	—	—	168
Stock option compensation expense	—	—	—	58	—	—	—	58
Unrealized holding loss on investment securities available for sale, net of tax	—	—	—	—	—	—	(25)	(25)
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	2	2
Accretion of OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	15	15
Balance, March 31, 2015	—	7,052,636	$—	$10,892	$(1,058)	$75,937	$ (347)	$85,424

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(1) 1998 Management Recognition and Development Plan ("MRDP").

See notes to unaudited condensed consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended March 31, 2015 and 2014
(In thousands)
(Unaudited)

	Six Months Ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$3,178	$2,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	669	576
Deferred federal income taxes	231	—
Amortization of CDI	3	58
Earned ESOP shares	132	132
MRDP compensation expense	—	2
Stock option compensation expense	56	47
Stock option tax effect less excess tax benefit	1	—
Gain on sales of OREO and other repossessed assets, net	(127)	(109)
Provision for OREO losses	405	375
BOLI net earnings	(268)	(258)
Gain on sales of loans, net	(584)	(474)
Net change in deferred loan origination fees	147	(3)
Net OTTI (recoveries) on investment securities	1	(87)
(Gain) loss on sale of investment securities available for sale, net	(45)	32
Amortization of MSRs	40	59
Loans originated for sale	(21,696)	(14,420)
Proceeds from sales of loans	20,927	15,473
Net change in accrued interest and other assets	391	125
Net change in accrued expenses and other liabilities	(98)	320
Net cash provided by operating activities	3,363	4,618
Cash flows from investing activities		
Net increase in CDs held for investment	(6,023)	(1,343)
Proceeds from sale of investment securities available for sale	1,220	856
Proceeds from maturities and prepayments of investment securities available for sale	159	212
Purchase of investment securities held to maturity	—	(3,003)
Proceeds from maturities and prepayments of investment securities held to maturity	243	279
Redemption of FHLB stock	111	101
Increase in loans receivable, net	(17,955)	(11,880)
Additions to premises and equipment	(412)	(597)
Proceeds from sales of OREO and other repossessed assets	1,589	2,962
Net cash used in investing activities	(21,068)	(12,413)

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the six months ended March 31, 2015 and 2014
(In thousands)
(Unaudited)

	Six Months Ended March 31,	
	2015	2014
Cash flows from financing activities		
Increase (decrease) in deposits, net	$28,157	$(3,888)
ESOP tax effect	36	28
Proceeds from exercise of stock options	24	16
Stock option excess tax benefit	1	—
Issuance of common stock	1	—
Redemption of preferred stock	—	(12,065)
Dividends paid	(775)	(551)
Net cash provided by (used in) financing activities	27,444	(16,460)
Net increase (decrease) in cash and cash equivalents	9,739	(24,255)
Cash and cash equivalents		
Beginning of period	72,354	94,496
End of period	$82,093	$70,241
Supplemental disclosure of cash flow information		
Income taxes paid	$1,560	$1,135
Interest paid	1,937	2,015
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$641	$5,166
Other comprehensive loss related to investment securities	(8)	(43)
Loans originated to facilitate the sale of OREO	—	450

See notes to unaudited condensed consolidated financial statements

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2014 ("2014 Form 10-K"). The unaudited condensed consolidated results of operations for the six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2015.

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

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

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

(e) Certain prior period amounts have been reclassified to conform to the March 31, 2015 presentation with no change to net income or total shareholders' equity previously reported.

(2) PREFERRED STOCK SOLD IN TROUBLED ASSET RELIEF PROGRAM ("TARP") CAPITAL PURCHASE PROGRAM ("CPP")
On December 23, 2008, the Company received $16.64 million from the U.S. Treasury Department ("Treasury") as a part of the Treasury's CPP, which was established as part of the TARP. The Company sold 16,641 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock"), with a liquidation value of $1,000 per share and a related warrant to purchase 370,899 shares of the Company's common stock at an exercise price of $6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018.

On November 13, 2012, the Company's outstanding 16,641 shares of Series A Preferred Stock were sold by the Treasury as part of its efforts to manage and recover its investments under the TARP. While the sale of the shares of Series A Preferred Stock to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients.

On June 12, 2013, the Treasury sold, to private investors, the warrant to purchase up to 370,899 shares of the Company's common stock. The sale of the warrant to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for the warrant.

During the year ended September 30, 2013, the Company purchased and retired 4,576 shares of its Series A Preferred Stock for $4.32 million; a $255,000 discount from the liquidation value. The discount from the liquidation value on the repurchased shares was recorded as an increase to retained earnings and included in net income to common shareholders in the computation of net income per common share. On December 20, 2013, the Company redeemed the remaining 12,065 shares of its Series A Preferred Stock at the liquidation value of $12.07 million. The Series A Preferred Stock paid a 5.0% dividend through December 20, 2013, the date of its redemption.

(3) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and are as follows as of March 31, 2015 and September 30, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	$914	$26	$(1)	$939
Private label residential	1,176	975	(7)	2,144
U.S. agency securities	3,016	36	—	3,052
Total	$5,106	$1,037	$(8)	$6,135
Available for sale				
MBS:				
U.S. government agencies	$468	$44	$(1)	$511
Mutual funds	1,000	—	(25)	975
Total	$1,468	$44	$(26)	$1,486
September 30, 2014				
Held to maturity				
MBS:				
U.S. government agencies	$1,002	$32	$(2)	$1,032
Private label residential	1,280	965	(7)	2,238
U.S. agency securities	3,016	1	(13)	3,004
Total	$5,298	$998	$(22)	$6,274
Available for sale				
MBS:				
U.S. government agencies	$1,801	$100	$(2)	$1,899
Mutual funds	1,000	—	(42)	958
Total	$2,801	$100	$(44)	$2,857

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of March 31, 2015 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to maturity MBS:								
U.S. government agencies	$—	$—	—	$70	$(1)	5	$70	$(1)
Private label residential	1	—	1	146	(7)	10	147	(7)
Total	$1	$—	1	$216	$(8)	15	$217	$(8)
Available for sale MBS:								
U.S. government agencies	$4	$—	2	$53	$(1)	2	$57	$(1)
Mutual funds	—	—	—	975	(25)	1	975	(25)
Total	$4	$—	2	$1,028	$(26)	3	$1,032	$(26)

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of September 30, 2014 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to maturity MBS:								
U.S. government agencies	$—	$—	—	$76	$(2)	8	$76	$(2)
Private label residential	9	—	1	188	(7)	11	197	(7)
U.S. agency securities	2,989	(13)	1	—	—	—	2,989	(13)
Total	$2,998	$(13)	2	$264	$(9)	19	$3,262	$(22)
Available for sale MBS:								
U.S. government agencies	$19	$—	1	$40	$(2)	1	$59	$(2)
Mutual funds	—	—	—	958	(42)	1	958	(42)
Total	$19	$—	1	$998	$(44)	2	$1,017	$(44)

The Company has evaluated these securities and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of March 31, 2015, management does not have the intent to sell any of the securities classified

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as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost or recorded value if previously written down.

In accordance with GAAP, the Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss).

To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of each OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates and prepayment speeds included in third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on OTTI securities as of March 31, 2015 and September 30, 2014:

	Range Minimum		Maximum		Weighted Average	
March 31, 2015						
Constant prepayment rate	6.00	%	15.00	%	9.40	%
Collateral default rate	0.09	%	16.68	%	6.26	%
Loss severity rate	0.98	%	63.18	%	41.54	%
September 30, 2014						
Constant prepayment rate	6.00	%	15.00	%	10.59	%
Collateral default rate	0.01	%	22.34	%	7.41	%
Loss severity rate	0.16	%	75.17	%	45.81	%

The following tables present the OTTI for the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014	
	Held To Maturity		Available For Sale	Held To Maturity	Available For Sale
Total (OTTI) recoveries	$—		$—	$89	$—
Adjustment for portion recorded as (transfered from) other comprehensive income (loss) before taxes (1)	(1	)	—	—	—
Net (OTTI) recoveries recognized in earnings (2)	$(1	)	$—	$89	$—

	Six Months Ended March 31, 2015			Six Months Ended March 31, 2014	
	Held To Maturity		Available For Sale	Held To Maturity	Available For Sale
Total (OTTI) recoveries	$—		$—	$86	$—
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(1	)	—	1	—
Net (OTTI) recoveries recognized in earnings (2)	$(1	)	$—	$87	$—

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

The following table presents a roll-forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income (loss) for the six months ended March 31, 2015 and 2014 (in thousands):

	Six Months Ended March 31,	
	2015	2014
Beginning balance of credit loss	$ 1,654	$ 2,084
Additions:		
Credit losses for which OTTI was not previously recognized	1	2
Subtractions:		
Realized losses previously recorded as credit losses	(38)	(492)
Recovery of prior credit loss	—	87
Ending balance of credit loss	$ 1,617	$ 1,681

There was no realized gain on the sale of investment securities for the three months ended March 31, 2015. There was a $45,000 realized gain on the sale of investment securities for the six months ended March 31, 2015. There was a $32,000 realized loss on the sale of investment securities for both the three and six months ended March 31, 2014. During the three months ended March 31, 2015, the Company recorded a net $21,000 realized loss (as a result of the securities being deemed worthless) on 12 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2015, the Company recorded a net $38,000 realized loss (as a result of securities being deemed worthless) on 14 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended March 31, 2014, the Company recorded a $365,000 realized loss (as a result of the securities being deemed worthless) on 12 held to maturity residential MBS and five available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2014, the Company recorded a net $405,000 realized loss (as a result of securities being deemed worthless) on 15 held to maturity residential MBS and six available for sale MBS, of which the entire amount had previously been recognized as a credit loss.

The amortized cost of residential mortgage-backed and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral, retail repurchase agreements and other non-profit organization deposits totaled $4.50 million and $6.22 million at March 31, 2015 and September 30, 2014, respectively.

The contractual maturities of debt securities at March 31, 2015 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities as a result of the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$—	$—	$—	$—
Due after one year to five years	3,019	3,055	15	15
Due after five to ten years	25	25	—	—
Due after ten years	2,062	3,055	453	496
Total	$ 5,106	$ 6,135	$ 468	$ 511

(4) GOODWILL

The Company performed its fiscal year 2014 goodwill impairment test during the quarter ended June 30, 2014 with the assistance of a third-party firm specializing in goodwill impairment valuations for financial institutions. The third-party analysis was conducted as of May 31, 2014 and the step one test concluded that the reporting unit's fair value was more than its recorded value and, therefore, step two of the analysis was not necessary. Accordingly, the recorded value of goodwill as of May 31, 2014 was not impaired.

The goodwill impairment test involves a two-step process. Step one of the goodwill impairment test estimates the fair value of the reporting unit. If the estimated fair value of the Company's sole reporting unit, the Bank, under step one exceeds the recorded value of the reporting unit, goodwill is not considered impaired and no further analysis is necessary. If the estimated fair value of the Company's sole reporting unit is less than the recorded value, then a step two test, which calculates the fair value of assets and liabilities to calculate an implied value of goodwill, is performed.

Step one of the goodwill impairment test estimated the fair value of the reporting unit utilizing a discounted cash flow income approach analysis, a public company market approach analysis, a merger and acquisition market approach analysis and a trading price market approach analysis in order to derive an enterprise value for the Company.

The discounted cash flow income approach analysis uses a reporting unit's projection of estimated operating results and cash flows and discounts them using a rate that reflects current market conditions. The projection uses management's estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Key assumptions used by the Company in its discounted cash flow model (income approach) included an annual loan growth rate that ranged from 3.00% to 5.10%, an annual deposit growth rate that ranged from 2.80% to 4.00% and a return on assets that ranged from 0.70% to 1.00%. In addition to the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the approach were the discount rate of 13.6% and the residual capitalization rate of 10.6%. The discount rate used was the cost of equity capital. The cost of equity capital was based on the capital asset pricing model ("CAPM"), modified to account for a small stock premium. The small stock premium represents the additional return required by investors for small stocks based on the Stocks, Bonds, Bills and Inflation 2013 Yearbook. Beyond the approximate five-year forecast period, residual free cash flows were estimated to increase at a constant rate into perpetuity. These cash flows were converted to a residual value using an appropriate residual capitalization rate. The residual capitalization rate was equal to the discount rate minus the expected long-term growth rate of cash flows. Based on historical results, the economic climate, the outlook for the industry and management's expectations, a long-term growth rate of 3.0% was estimated.

The public company market approach analysis estimates the fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples were derived from comparable publicly traded companies with operating and investment characteristics similar to those of the Company. Key assumptions used by the Company included the selection of comparable public companies and performance ratios. In applying the public company analysis, the Company selected eight publicly traded institutions based on similar lines of business, markets, growth prospects, risks and firm size. The performance ratios included price to earnings (last twelve months), price to earnings (current year to date), price to book value, price to tangible book value and price to deposits.

The merger and acquisition market approach analysis estimates the fair value by using merger and acquisition transactions involving companies that are similar in nature to the Company. Key assumptions used by the Company included the selection of comparable merger and acquisition transactions and the valuation ratios to be used. The analysis used banks located in Washington and Oregon that were acquired after January 1, 2012. The valuation ratios from these transactions for price to earnings and price to tangible book value were then used to derive an estimated fair value of the Company.

The trading price market approach analysis used the closing market price at May 30, 2014 of the Company's common stock, traded on the NASDAQ Global Market to determine the market value of total equity capital.

A key assumption used by the Company in the public company market approach analysis and the trading price market approach analysis was the application of a control premium. The Company's common stock is thinly traded and therefore management believes reflects a discount for illiquidity. In addition, the trading price of the Company's common stock reflects a minority interest value. To determine the fair market value of a majority interest in the Company's stock, premiums were calculated and applied to the indicated values. Therefore, a control premium was applied to the results of the public company market approach analysis and the trading price market approach analysis because the initial value conclusion was based on minority interest transactions. Merger and acquisition studies were analyzed to conclude that the difference between the acquisition price and a company's stock price prior to acquisition indicates, in part, the price effect of a controlling interest. Based on the evaluation of mergers and acquisition studies, a control premium of 25% was used.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in the expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate;

adverse assessment or action by a regulator; and unanticipated competition. Key assumptions used in the annual goodwill impairment test are highly judgmental and include: selection of comparable companies, amount of control premium, projected cash flows and discount rate applied to projected cash flows. Any change in these indicators or key assumptions could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

As of March 31, 2015, management believed that there had been no events or changes in the circumstances since May 31, 2014 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(5) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable and loans held for sale consisted of the following at March 31, 2015 and September 30, 2014 (dollars in thousands):

	March 31, 2015 Amount	Percent		September 30, 2014 Amount	Percent	
Mortgage loans:						
One- to four-family (1)	$107,821	17.1	%	$98,534	16.2	%
Multi-family	48,641	7.7		46,206	7.6	
Commercial	296,338	46.8		294,354	48.5	
Construction and land development	77,433	12.2		68,479	11.3	
Land	28,464	4.5		29,589	4.9	
Total mortgage loans	558,697	88.3		537,162	88.5	
Consumer loans:						
Home equity and second mortgage	34,362	5.4		34,921	5.7	
Other	4,567	0.8		4,699	0.8	
Total consumer loans	38,929	6.2		39,620	6.5	
Commercial business loans	34,911	5.5		30,559	5.0	
Total loans receivable	632,537	100.0	%	607,341	100.0	%
Less:						
Undisbursed portion of construction loans in process	(35,990)			(29,416)		
Deferred loan origination fees	(1,893)			(1,746)		
Allowance for loan losses	(10,382)			(10,427)		
Total loans receivable, net	$584,272			$565,752		

(1) Includes loans held for sale.

Construction and Land Development Loan Portfolio Composition

The following table sets forth the composition of the Company's construction and land development loan portfolio at March 31, 2015 and September 30, 2014 (dollars in thousands):

	March 31, 2015 Amount	Percent		September 30, 2014 Amount	Percent	
Custom and owner/builder	$60,889	78.6	%	$59,752	87.3	%
Speculative one- to four-family	2,769	3.6		2,577	3.8	
Commercial real estate	3,395	4.4		3,310	4.8	
Multi-family (including condominiums)	10,380	13.4		2,840	4.1	
Total construction and land development loans	$77,433	100.0	%	$68,479	100.0	%

Allowance for Loan Losses
The following tables set forth information for the three and six months ended March 31, 2015 and 2014 regarding activity in the allowance for loan losses by portfolio segment (in thousands):

	Three Months Ended March 31, 2015				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,504	$24	$39	$107	$1,596
Multi-family	368	(66)	—	—	302
Commercial	3,646	(45)	—	—	3,601
Construction – custom and owner/builder	460	15	—	—	475
Construction – speculative one- to four-family	50	14	—	—	64
Construction – commercial	28	9	—	—	37
Construction – multi-family	75	54	—	—	129
Land	2,817	(67)	—	3	2,753
Consumer loans:					
Home equity and second mortgage	801	5	9	—	797
Other	159	34	4	1	190
Commercial business loans	414	23	—	1	438
Total	$10,322	$—	$52	$112	$10,382

	Six Months Ended March 31, 2015				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,650	$(23)	$157	$126	$1,596
Multi-family	387	(85)	—	—	302
Commercial	4,836	(1,235)	—	—	3,601
Construction – custom and owner/builder	450	25	—	—	475
Construction – speculative one- to four-family	52	12	—	—	64
Construction – commercial	78	(41)	—	—	37
Construction – multi-family	25	104	—	—	129
Land	1,434	1,312	4	11	2,753
Consumer loans:					
Home equity and second mortgage	879	(62)	20	—	797
Other	176	17	5	2	190
Commercial business loans	460	(24)	—	2	438
Total	$10,427	$—	$186	$141	$10,382

	Three Months Ended March 31, 2014				
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$ 1,321	$ 560	$ 273	$ 143	$ 1,751
Multi-family	551	(118)	—	—	433
Commercial	5,113	222	168	1	5,168
Construction – custom and owner/builder	332	16	—	—	348
Construction – speculative one- to four-family	118	(72)	—	—	46
Construction – commercial	80	(55)	—	—	25
Construction – multi-family	—	(126)	—	126	—
Construction – land development	—	(218)	—	218	—
Land	1,865	(242)	162	107	1,568
Consumer loans:					
Home equity and second mortgage	809	52	—	7	868
Other	208				