PATHFINDER BANCORP INC
Form 10-Q
November 14, 2011

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 September 30, 2011

OR

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

For the transition period from _______ to _______

Commission File Number: 000-23601

PATHFINDER BANCORP, INC.
(Exact Name of Company as Specified in its Charter)

FEDERAL	16-1540137
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

214 West First Street, Oswego, NY 13126
(Address of Principal Executive Office) (Zip Code)

(315) 343-0057
(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 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 T 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES T 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. (Check one):

Large accelerated filer * Accelerated filer * Non-accelerated filer*
Smaller reporting company T

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES * NO T

As of November 11, 2011, there were 2,979,969 shares issued and 2,617,682 shares outstanding of the Registrant's Common Stock.

PATHFINDER BANCORP, INC.
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PART I FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

Pathfinder Bancorp, Inc.
Consolidated Statements of Condition
(Unaudited)

(In thousands, except share data)	September 30, 2011	December 31, 2010
ASSETS:		
Cash and due from banks	$8,676	$6,366
Interest earning deposits	7,112	7,397
Total cash and cash equivalents	15,788	13,763
Investment securities, at fair value	86,003	85,327
Federal Home Loan Bank stock, at cost	1,528	2,134
Loans	294,292	285,296
Less: Allowance for loan losses	4,003	3,648
Loans receivable, net	290,289	281,648
Premises and equipment, net	10,659	9,432
Accrued interest receivable	1,619	1,709
Foreclosed real estate	562	375
Goodwill	3,840	3,840
Bank owned life insurance	7,878	6,915
Other assets	2,280	3,402
Total assets	$420,446	$408,545
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Interest-bearing	$305,310	$295,786
Noninterest-bearing	37,744	30,716
Total deposits	343,054	326,502
Short-term borrowings	2,000	13,000
Long-term borrowings	26,101	28,000
Junior subordinated debentures	5,155	5,155
Other liabilities	4,754	5,296
Total liabilities	381,064	377,953
Shareholders' equity:		
Preferred stock - CPP, par value $0.01 per share; $1,000 liquidation preference; 1,000,000 shares authorized; 0 and 6,771 shares issued and outstanding, respectively	-	6,225
Preferred stock - SBLF, par value $0.01 per share; $1,000 liquidation preference; 13,000 shares authorized; 13,000 and 0 shares issued and outstanding, respectively	13,000	-
Common stock, par value $0.01; authorized 10,000,000 shares; 2,979,969 and 2,972,119 shares issued and 2,617,682 and 2,484,832 shares outstanding, respectively	30	30
Additional paid in capital	8,707	8,615
Retained earnings	24,444	24,163

Accumulated other comprehensive loss	(894)	(1,939)
Unearned ESOP	(1,071)	-
Treasury stock, at cost; 362,287 and 487,287 shares, respectively	(4,834)	(6,502)
Total shareholders' equity	39,382	30,592
Total liabilities and shareholders' equity	$420,446	$408,545

The accompanying notes are an integral part of the consolidated financial statements.

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Pathfinder Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	For the three months ended September 30, 2011	For the three months ended September 30, 2010
Interest and dividend income:		
Loans, including fees	$4,089	$3,861
Debt securities:		
Taxable	489	611
Tax-exempt	81	74
Dividends	33	38
Federal funds sold and interest earning deposits	1	1
Total interest income	4,693	4,585
Interest expense:		
Interest on deposits	810	861
Interest on short-term borrowings	4	2
Interest on long-term borrowings	259	350
Total interest expense	1,073	1,213
Net interest income	3,620	3,372
Provision for loan losses	145	263
Net interest income after provision for loan losses	3,475	3,109
Noninterest income:		
Service charges on deposit accounts	283	319
Earnings on bank owned life insurance	45	72
Loan servicing fees	63	46
Net gains on sales and redemptions of investment securities	469	144
Net (losses) gains on sales of loans and foreclosed real estate	(80)	10
Debit card interchange fees	93	76
Other charges, commissions & fees	130	131
Total noninterest income	1,003	798
Noninterest expense:		
Salaries and employee benefits	1,787	1,541
Building occupancy	316	317
Data processing	349	340
Professional and other services	219	146
Advertising	91	97
FDIC assessments	(8)	129
Audits and exams	62	55
Other expenses	392	327
Total noninterest expenses	3,208	2,952
Income before income taxes	1,270	955
Provision for income taxes	396	287
Net income	$874	$668
Preferred stock dividends and discount accretion	$581	$115

Net income available to common shareholders	$293	$553
Earnings per common share - basic	$0.12	$0.22
Earnings per common share - diluted	$0.11	$0.22
Dividends per common share	$0.03	$0.03

The accompanying notes are an integral part of the consolidated financial statements.

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Pathfinder Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Interest and dividend income:		
Loans, including fees	$11,945	$11,396
Debt securities:		
Taxable	1,687	1,771
Tax-exempt	230	190
Dividends	101	168
Federal funds sold and interest earning deposits	3	5
Total interest income	13,966	13,530
Interest expense:		
Interest on deposits	2,444	2,557
Interest on short-term borrowings	22	2
Interest on long-term borrowings	816	1,052
Total interest expense	3,282	3,611
Net interest income	10,684	9,919
Provision for loan losses	670	788
Net interest income after provision for loan losses	10,014	9,131
Noninterest income:		
Service charges on deposit accounts	854	1,051
Earnings on bank owned life insurance	162	212
Loan servicing fees	155	163
Net gains on sales and redemptions of investment securities	791	172
Net losses on sales of loans and foreclosed real estate	(40)	(43)
Debit card interchange fees	273	229
Other charges, commissions & fees	403	390
Total noninterest income	2,598	2,174
Noninterest expense:		
Salaries and employee benefits	5,260	4,601
Building occupancy	1,038	971
Data processing	1,054	1,021
Professional and other services	504	421
Advertising	366	200
FDIC assessments	316	386
Audits and exams	181	166
Other expenses	1,175	940
Total noninterest expenses	9,894	8,706
Income before income taxes	2,718	2,599
Provision for income taxes	831	780
Net income	$1,887	$1,819
Preferred stock dividends and discount accretion	$816	$346
Net income available to common shareholders	$1,071	$1,473

Earnings per common share - basic	$0.43	$0.59
Earnings per common share - diluted	$0.42	$0.59
Dividends per common share	$0.09	$0.09

The accompanying notes are an integral part of the consolidated financial statements.

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Pathfinder Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2011 and September 30, 2010
(Unaudited)

(In thousands, except share data)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP	Treasury Stock	Total
Balance, January 1, 2011	$ 6,225	$ 30	$ 8,615	$ 24,163	$ (1,939)	$ -	$ (6,502)	$ 30,592
Comprehensive income:								
Net income				1,887				1,887
Other comprehensive income (loss), net of tax:								
Unrealized holding gains on securities available for sale (net of $657 tax expense)					982			982
Unrealized holding loss on financial derivative (net of $38 tax benefit)					(57)			(57)
Retirement plan amortization and transition obligation recognized in plan expenses (net of $80 tax expense)					120			120
Total comprehensive income								2,932
Sale of preferred stock - SBLF	13,000							13,000
Redemption of CPP Preferred stock	(6,771)							(6,771)
Preferred stock discount accretion	546			(546)				-
Preferred stock dividends - CPP				(270)				(270)
Sale of treasury stock to ESOP				(566)		(1,102)	1,668	-

ESOP shares earned (3,445 shares)			1			31		32
Stock based compensation			25					25
Stock options exercised			66					66
Common stock dividends declared ($0.09 per share)				(224)				(224)
Balance, September 30, 2011	$ 13,000	$ 30	$ 8,707	$ 24,444	$ (894)	$ (1,071)	$ (4,834)	$ 39,382
Balance, January 1, 2010	$ 6,101	$ 30	$ 8,615	$ 22,419	$ (1,425)	$ -	$ (6,502)	$ 29,238
Comprehensive income:								
Net income				1,819				1,819
Other comprehensive income (loss), net of tax:								
Unrealized holding gains on securities available for sale (net of $646 tax expense)					967			967
Unrealized holding loss on financial derivative (net of $74 tax benefit)					(110)			(110)
Retirement plan net losses and transition obligation recognized in plan expenses (net of $66 tax expense)					99			99
Total Comprehensive income								2,775
Preferred stock discount accretion	92			(92)				-
Preferred stock dividends - CPP				(254)				(254)
Common stock dividends declared ($0.09 per share)				(224)				(224)
Balance, September 30, 2010	$ 6,193	$ 30	$ 8,615	$ 23,668	$ (469)	$ -	$ (6,502)	$ 31,535

The accompanying notes are an integral part of the consolidated financial statements.

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Pathfinder Bancorp, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
OPERATING ACTIVITIES		
Net income	$ 1,887	$ 1,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	670	788
Proceeds from sales of loans	-	144
Originations of loans held-for-sale	-	(146)
Realized losses (gains) on sales and redemptions of:		
Real estate acquired through foreclosure	40	41
Loans	-	2
Premises and equipment	-	1
Available-for-sale investment securities	(791)	(172)
Depreciation	523	483
Amortization of mortgage servicing rights	20	22
Amortization of deferred loan costs	139	163
Earnings on bank owned life insurance	(162)	(212)
Net amortization of premiums and discounts on investment securities	370	336
Stock based compensation and ESOP expense	57	-
Decrease (increase) in accrued interest receivable	90	(225)
Net change in other assets and liabilities	(30)	889
Net cash provided by operating activities	2,813	3,933
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(39,603)	(46,190)
Net proceeds from the redemption of Federal Home Loan Bank stock	606	35
Proceeds from maturities and principal reductions of		
investment securities available-for-sale	25,894	27,133
Proceeds from sales and redemptions of:		
Available-for-sale investment securities	15,091	9,096
Real estate acquired through foreclosure	691	137
Premises and equipment	-	24
Purchase of bank owned life insurance	(800)	-
Net increase in loans	(10,371)	(16,766)
Purchase of premises and equipment	(1,750)	(1,166)
Net cash used in investing activities	(10,242)	(27,697)
FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts, savings accounts,		
money management deposit accounts, MMDA accounts and escrow deposits	15,928	38,658
Net increase (decrease) in time deposits	624	(7,570)
Net repayments of short-term borrowings	(11,000)	-
Payments on long-term borrowings	(6,000)	(5,000)
Proceeds from long-term borrowings	4,101	4,000
Proceeds from sale of preferred stock - SBLF	13,000	-

Proceeds from exercise of stock options		66			-	
Redemption of preferred stock - CPP		(6,771	)		-	
Cash dividends paid to preferred shareholder - CPP		(270	)		(254	)
Cash dividends paid to common shareholders		(224	)		(224	)
Net cash provided by financing activities		9,454			29,610	
Increase in cash and cash equivalents		2,025			5,846	
Cash and cash equivalents at beginning of period		13,763			14,631	
Cash and cash equivalents at end of period	$	15,788		$	20,477	

The accompanying notes are an integral part of the consolidated financial statements.

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Pathfinder Bancorp, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
CASH PAID DURING THE PERIOD FOR:		
Interest	$3,299	$3,645
Income taxes	1,507	402
NON-CASH INVESTING ACTIVITY		
Transfer of loans to foreclosed real estate	921	355

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Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Pathfinder Bancorp, Inc. and its wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, have been included. Certain amounts in the 2010 consolidated financial statements may have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income as previously reported.

The following material under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" is written with the presumption that the users of the interim financial statements have read, or have access to, the Company's latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2010 and 2009 and for the two years then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of Part 1.

Operating results for the three and nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

(2) Earnings per Common Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the potential dilutive effect that could occur upon the assumed exercise of issued stock options and warrants issued to the U.S. Treasury using the treasury stock method. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

The following table sets forth the calculation of basic and diluted earnings per share:

($ in thousands, except share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Basic Earnings Per Common Share				
Net income available to common shareholders	$293	$553	$1,071	$1,473
Weighted average common shares outstanding	2,493,176	2,484,832	2,487,685	2,484,832
Basic earnings per common share	$0.12	$0.22	$0.43	$0.59
Diluted Earnings Per Common Share				
Net income available to common shareholders	$293	$553	$1,071	$1,473
Weighted average common shares outstanding	2,493,176	2,484,832	2,487,685	2,484,832
Effect of assumed exercise of stock options	10,569	-	4,752	-

Effect of assumed exercise of stock warrants	43,233	-	43,851	-
Diluted average common shares outstanding	2,546,978	2,484,832	2,536,288	2,484,832
Diluted earnings per common share	$0.11	$0.22	$0.42	$0.59

(3) Pension and Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering substantially all employees. The plan provides defined benefits based on years of service and final average salary. In addition, the Company provides certain health and life insurance benefits for eligible retired employees. The healthcare plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. Employees with less than 14 years of service as of January 1, 1995, are not eligible for the health and life insurance retirement benefits.

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The composition of net periodic pension plan costs for the three and nine months ended September 30, is detailed in the table below:

(In thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Service cost	$82	$65	$246	$195
Interest cost	103	94	310	282
Expected return on plan assets	(156)	(143)	(468)	(411)
Amortization of net losses	62	50	185	150
Net periodic benefit cost	$91	$66	$273	$216

The Company has not made any contributions to the defined benefit pension plan during the first nine months of 2011.

The composition of net periodic postretirement plan costs for the three and nine months ended September 30, is as follows:

(In thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Service cost	$-	$-	$-	$-
Interest cost	5	5	15	15
Amortization of losses and transition obligation	5	5	14	14
Net periodic benefit cost	$10	$10	$29	$29

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(4) Other Comprehensive Income

Accounting principles generally accepted in the United States of America, require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, unrealized gains and losses on financial derivatives, and unrecognized gains and losses, and transition assets or obligations for defined benefit pension and postretirement plans are reported as a separate component of the shareholders' equity section of the consolidated statements of condition, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects for the three and nine months ended September 30, are as follows:

(In thousands)	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Unrealized holding (losses) gains on securities available for sale:				
Unrealized holding gains arising during the period	$316	$205	$2,430	$1,785
Reclassification adjustment for net gains included in net income	(469)	(144)	(791)	(172)
Net unrealized (losses) gains on securities available for sale	(153)	61	1,639	1,613
Unrealized holding loss on financial derivative:				
Unrealized holding loss arising during the period	(87)	(75)	(141)	(229)
Reclassification adjustment for interest expense included in net income	16	14	46	45
Net unrealized loss on financial derivative	(71)	(61)	(95)	(184)
Defined benefit pension and post retirement plans:				
Reclassification adjustment for amortization of benefit plans' net loss				
and transition obligation recognized in net periodic expense	67	56	200	165
Net change in defined benefit plans	67	56	200	165
Other comprehensive (loss) income before tax	(157)	56	1,744	1,594
Tax effect	62	22	(699)	(638)
Other comprehensive (loss) income	$(95)	$78	$1,045	$956

The components of accumulated other comprehensive loss and related tax effects for the dates indicated are as follows:

(In thousands)	September 30, 2011	December 31, 2010
Unrealized gains on securities available for sale		
(net of tax expense 2011 - $766; 2010 - $110)	$1,147	$164
Unrealized losses on financial derivative		
(net of tax benefit 2011 - $82; 2010 - $44)	(123)	(66)
Net pension losses		
(net of tax benefit 2011 - $1,260; 2010 - $1,334)	(1,890)	(2,001)

Net post- retirement losses and transition obligation		
(net of tax benefit 2011 - $19; 2010 - $25)	(28)	(36)
	$(894)	$(1,939)

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(5) Investment Securities

The amortized cost and estimated fair value of investment securities are summarized as follows:

	September 30, 2011			
		Gross	Gross	Estimated
	Amortized	Unrealized	Unrealized	Fair
(In thousands)	Cost	Gains	Losses	Value
Debt investment securities:				
US Treasury, agencies and GSEs	$7,028	$64	$-	$7,092
State and political subdivisions	14,688	604	(12)	15,280
Corporate	11,160	51	(621)	10,590
Residential mortgage-backed - agency	47,822	1,669	(2)	49,489
Residential mortgage-backed - private label	576	17	-	593
Total	81,274	2,405	(635)	83,044
Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	1,285	18	-	1,303
Large cap equity fund	905	43	-	948
Other mutual funds	183	84	-	267
Common stock - financial services industry	443	-	(2)	441
Total	2,816	145	(2)	2,959
Total investment securities	$84,090	$2,550	$(637)	$86,003

	December 31, 2010			
		Gross	Gross	Estimated
	Amortized	Unrealized	Unrealized	Fair
(In thousands)	Cost	Gains	Losses	Value
Debt investment securities:				
US Treasury, agencies and GSEs	$20,137	$139	$(253)	$20,023
State and political subdivisions	19,227	174	(422)	18,979
Corporate	5,865	228	(493)	5,600
Residential mortgage-backed - agency	35,714	934	(239)	36,409
Residential mortgage-backed - private label	816	21	-	837
Total	81,759	1,496	(1,407)	81,848
Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	1,532	26	-	1,558
Large cap equity fund	1,129	93	-	1,222
Other mutual funds	183	61	-	244
Common stock - financial services industry	450	5	-	455
Total	3,294	185	-	3,479
Total investment securities	$85,053	$1,681	$(1,407)	$85,327

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The amortized cost and estimated fair value of debt investments at September 30, 2011 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

(In thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$2,610	$2,648
Due after one year through five years	14,034	14,104
Due after five years through ten years	6,872	7,188
Due after ten years	9,360	9,022
Mortgage-backed securities	48,398	50,082
Totals	$81,274	$83,044

The Company's investment securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	September 30, 2011					
	Less than Twelve Months		Twelve Months or More		Total	
(In thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
State and political subdivisions	$(12)	$1,644	$-	$-	$(12)	$1,644
Corporate	(88)	6,304	(533)	1,435	(621)	7,739
Residential mortgage-backed - agency	(2)	1,935	-	-	(2)	1,935
Common stock - financial services industry	-	-	(2)	1	(2)	1
	$(102)	$9,883	$(535)	$1,436	$(637)	$11,319

	December 31, 2010					
	Less than Twelve Months		Twelve Months or More		Total	
(In thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
US Treasury, agencies and GSEs	$(253)	$9,260	$-	$-	$(253)	$9,260
State and political subdivisions	(422)	10,173	-	-	(422)	10,173
Corporate	-	-	(493)	1,473	(493)	1,473
Residential mortgage-backed - agency	(239)	8,861	-	-	(239)	8,861
	$(914)	$28,294	$(493)	$1,473	$(1,407)	$29,767

We conduct a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ("OTTI"). We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the statement of condition date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. The guidance requires that credit-related OTTI be recognized in earnings while non-credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ("OCI"). Non-credit-related OTTI is based on other factors, including illiquidity. Presentation of OTTI is made in the consolidated statement of income on a gross basis, including both the portion recognized in earnings, as well as the portion recorded in OCI.

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At September 30, 2011, four state and political subdivision securities are in unrealized loss positions. All of these positions have been in an unrealized loss positions for two months or less. Each security has an unrealized loss of less than 1.6% as compared to their respective carrying values. All positions are rated AA or better by S&P. No other than temporary impairment is deemed present on these securities.

At September 30, 2011, eleven corporate securities were in unrealized loss positions. The first two holdings represent trust-preferred issuances from large money center financial institutions. The JP Morgan Chase floating rate trust-preferred security has a carrying value of $986,000 and a fair value of $787,000. The Bank of America floating rate trust-preferred security has a carrying value of $982,000 and a fair value of $648,000. The securities are rated A2 and Baa3 by Moody's, respectively. The securities are both floating rate notes that adjust quarterly to LIBOR. These securities are reflecting a net unrealized loss due to current similar offerings being originated at higher spreads to LIBOR, as the market currently demands a greater pricing premium for the associated risk. Management has performed a detailed credit analysis on the underlying companies and has concluded that neither issue is credit impaired. Due to the fact that each security has approximately 16 years until final maturity, and management has determined that there is no related credit impairment, the associated pricing risk is managed similar to long-term, low yielding, 15 and 30-year fixed rate residential mortgages carried in the Company's loan portfolio. The risk is managed through the Company's interest rate risk management procedures. The Company expects the present value of expected cash flows will be sufficient to recover the amortized cost basis. Thus, the securities are not deemed to be other-than-temporarily impaired. Each of the remaining nine corporate holdings have unrealized loss positions of 2.7% or less than the associated security book value. Only one of the nine has been in a loss position for more than one month, and it has carried an unrealized loss for a total of four months. Eight of the securities are A rated or better, one security is rated BBB+. The unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific security. No OTTI is deemed present on these securities.

Three government agency and government sponsored enterprise ("GSE") residential mortgage-backed security holdings have an unrealized loss as of September 30, 2011. The securities were issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Each security has an unrealized loss of less than $1,000 as compared to their respective carrying values. All securities have an implied AAA rating. The unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific security. No OTTI is deemed present on these securities.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above, the length of time the equity security's fair value has been below the carrying amount and whether the Company has the intent and ability to retain the equity securities for a sufficient period of time to allow for recovery. The Company holds one equity security that had a fair value less than the carrying value at September 30, 2011. A small common stock investment in The Phoenix Companies has an unrealized loss of less than $1,600. Due to the relatively small size of the unrealized loss and short duration of the loss period, no OTTI is deemed present in relation to this security.

The following table presents a roll-forward of the amount related to credit losses recognized in earnings for the periods ended September 30:

(In thousands)	2011	2010
Beginning balance – January 1	$875	$875
Initial credit impairment	-	-
Subsequent credit impairments	-	-
Reductions for amounts recognized in earnings due to intent or requirement to sell	-	-
Reductions for securities sold	(875)	-
Reductions for increases in cash flows expected to be collected	-	-
Ending balance - September 30	$-	$875

The above credit losses were related to one security that was sold at a small gain during the period ended September 30, 2011.

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Gross realized gains (losses) on sales of securities for the three and nine months ended September 30, are detailed below:

(In thousands)	For the three months ended September 30, 2011 2011	2010	For the nine months ended September 30, 2011 2011	2010
Realized gains	$469	$145	$796	$173
Realized losses	-	(1)	(5)	(1)
	$469	$144	$791	$172

As of September 30, 2011 and December 31, 2010, securities with an amortized cost of $62.6 million and $47.5 million, respectively, were pledged to collateralize certain deposit and borrowing arrangements.

Management has reviewed its loan and mortgage-backed securities portfolios and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of investing in, or originating these types of investments or loans.

(6) Loans

Major classifications of loans at September 30, 2011 and December 31, 2010 are as follows:

(In thousands)	September 30, 2011	December 31, 2010
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$152,841	$143,661
Construction	3,021	3,569
	155,862	147,230
Commercial loans:		
Real estate	70,685	69,042
Lines of credit	13,772	14,122
Other commercial and industrial	22,631	20,779
Municipal loans	2,139	4,826
	109,227	108,769
Consumer loans:		
Home equity and junior liens	24,842	25,168
Other consumer	3,743	3,411
	28,585	28,579
Total loans	293,674	284,578
Net deferred loan costs	618	718
Less allowance for loan losses	(4,003)	(3,648)
Loans receivable, net	$290,289	$281,648

The Company originates residential mortgage, commercial and consumer loans to customers throughout Oswego and parts of Onondaga counties. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' abilities to honor their contracts is dependent upon the counties' employment and economic conditions.

As of September 30, 2011, residential mortgage loans with a carrying value of $53.9 million have been pledged by the Company to the Federal Home Loan Bank of New York under a blanket collateral agreement to secure the Company's line of credit and term borrowings.

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Loan Origination / Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by frequently providing management with reports related to loan production, loan quality, loan delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The loan portfolio is segregated into risk rating categories based on the borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate. The risk ratings are evaluated at least annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential mortgage or consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as loss are considered uncollectible and are charged to the allowance for loan loss. Loans not classified are rated pass.

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The following table presents the classes of the loan portfolio, not including net deferred loan costs, summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2011 and December 31, 2010:

	September 30, 2011				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$148,257	$1,359	$3,225	$-	$152,841
Construction	3,021	-	-	-	3,021
	151,278	1,359	3,225	-	155,862
Commercial loans:					
Real estate	65,797	1,063	3,643	182	70,685
Lines of credit	12,339	65	1,368	-	13,772
Other commercial and industrial	21,275	519	837	-	22,631
Municipal loans	2,139	-	-	-	2,139
	101,550	1,647	5,848	182	109,227
Consumer loans:					
Home equity and junior liens	23,207	219	1,363	53	24,842
Other consumer	3,557	18	134	34	3,743
	26,764	237	1,497	87	28,585
Total loans	$279,592	$3,243	$10,570	$269	$293,674

	December 31, 2010				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$138,435	$1,725	$3,501	$-	$143,661
Construction	3,569	-	-	-	3,569
	142,004	1,725	3,501	-	147,230
Commercial loans:					
Real estate	63,834	524	4,684	-	69,042
Lines of credit	13,280	28	814	-	14,122
Other commercial and industrial	19,857	163	759	-	20,779
Municipal loans	4,826	-	-	-	4,826
	101,797	715	6,257	-	108,769
Consumer loans:					
Home equity and junior liens	23,559	316	1,293	-	25,168
Other consumer	3,271	30	110	-	3,411
	26,830	346	1,403	-	28,579
Total loans	$270,631	$2,786	$11,161	$-	$284,578

Management has reviewed its loan portfolio and determined that, to the best of its knowledge, no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of originating these types of loans.

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Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received within thirty days of the payment due date.

An age analysis of past due loans, segregated by portfolio segment and class of loans, as of September 30, 2011 and December 31, 2010, is detailed in the following table:

	September 30, 2011					
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$2,107	$908	$1,082	$4,097	$148,744	$152,841
Construction	-	-	-	-	3,021	3,021
	2,107	908	1,082	4,097	151,765	155,862
Commercial loans:						
Real estate	960	-	1,766	2,726	67,959	70,685
Lines of credit	490	272	15	777	12,995	13,772
Other commercial and industrial	768	77	773	1,618	21,013	22,631
Municipal loans	-	-	-	-	2,139	2,139
	2,218	349	2,554	5,121	104,106	109,227
Consumer loans:						
Home equity and junior liens	173	342	607	1,122	23,720	24,842
Other consumer	35	20	42	97	3,646	3,743
	208	362	649	1,219	27,366	28,585
Total loans	$4,533	$1,619	$4,285	$10,437	$283,237	$293,674

	December 31, 2010					
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$2,045	$1,078	$1,335	$4,458	$139,203	$143,661
Construction	-	-	-	-	3,569	3,569
	2,045	1,078	1,335	4,458	142,772	147,230
Commercial loans:						
Real estate	238	908	3,680	4,826	64,216	69,042
Lines of credit	205	-	69	274	13,848	14,122
Other commercial and industrial	734	301	475	1,510	19,269	20,779
Municipal loans	-	-	-	-	4,826	4,826
	1,177	1,209	4,224	6,610	102,159	108,769
Consumer loans:						
Home equity and junior liens	586	371	303	1,260	23,908	25,168
Other consumer	15	7	62	84	3,327	3,411
	601	378	365	1,344	27,235	28,579
Total loans	$3,823	$2,665	$5,924	$12,412	$272,166	$284,578

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Nonaccrual loans, segregated by class of loan, were as follows:

(In thousands)	September 30, 2011	December 31, 2010
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$1,082	$1,335
Construction	-	-
	1,082	1,335
Commercial loans:		
Real estate	1,766	3,680
Lines of credit	15	69
Other commercial and industrial	773	475
Municipal loans	-	-
	2,554	4,224
Consumer loans:		
Home equity and junior liens	607	303
Other consumer	42	62
	649	365
Total nonaccrual loans	$4,285	$5,924

There were no loans past due ninety days or more and still accruing interest at September 30, 2011 or December 31, 2010.

The Company has determined that there were no Troubled Debt Restructurings (“TDR”s) that occurred during the three month period ended September 30, 2011. Additionally, the Company has determined that there were no payment defaults during the three month period ended September 30, 2011 on TDRs that occurred within the previous twelve months.

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Impaired Loans

The following tables summarize impaired loans information by portfolio class at September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
1-4 family first-lien residential mortgages	$119	$119	$-	$185	$185	$-
Residential mortgage construction	-	-	-	-	-	-
Commercial real estate	650	650	-	1,919	1,919	-
Commercial lines of credit	74	74	-	-	-	-
Other commercial and industrial	592	592	-	96	96	-
Municipal	-	-	-	-	-	-
Home equity and junior liens	313	313	-	411	411	-
Other consumer	-	-	-	-	-	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	585	585	128	1,215	1,215	255
Residential mortgage construction	-	-	-	-	-	-
Commercial real estate	1,166	1,166	306	2,233	2,322	352
Commercial lines of credit	-	-	-	300	300	300
Other commercial and industrial	464	464	200	346	346	78
Municipal	-	-	-	-	-	-
Home equity and junior liens	135	135	61	252	252	110
Other consumer	-	-	-	-	-	-
Total:						
1-4 family first-lien residential mortgages	704	704	128	1,400	1,400	255
Residential mortgage construction	-	-	-	-	-	-
Commercial real estate	1,816	1,816	306	4,152	4,241	352
Commercial lines of credit	74	74	-	300	300	300
Other commercial and industrial	1,056	1,056	200	442	442	78
Municipal	-	-	-	-	-	-
Home equity and junior liens	448	448	61	663	663	110
Other consumer						