Simplicity Bancorp, Inc.
Form 10-Q
May 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: March 31, 2013

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: 001-34979

SIMPLICITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**26-1500698**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**
1359 N. Grand Avenue, Covina, CA	**91724**
(Address of principal executive offices)	**(Zip Code)**

(800) 524-2274

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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 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. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

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

Common Stock, $.01 par value 8,268,515 shares outstanding as of May 7, 2013.

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Form 10-Q

SIMPLICITY BANCORP, INC.

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	March 31, 2013	June 30, 2012
ASSETS		
Cash and due from banks	$ 8,886	$ 9,783
Federal funds sold	63,805	56,235
Total cash and cash equivalents	72,691	66,018
Securities available-for-sale, at fair value	58,217	53,397
Securities held-to-maturity, fair value of $629 and $1,229 at March 31, 2013 and June 30, 2012, respectively	612	1,197
Federal Home Loan Bank stock, at cost	6,599	8,525
Loans held for sale	15,060	
Loans receivable, net of allowance for loan losses of $6,438 and $7,502 at March 31, 2013 and June 30, 2012, respectively	700,420	764,717
Accrued interest receivable	2,540	2,778
Premises and equipment, net	3,064	2,850
Goodwill	3,950	3,950
Bank-owned life insurance	13,676	13,334
Real estate owned (REO)	264	1,280
Other assets	5,237	5,284
Total assets	$ 882,330	$ 923,330
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 66,150	$ 71,319
Interest bearing	603,855	611,570
Total deposits	670,005	682,889
Federal Home Loan Bank advances, short-term		20,000
Federal Home Loan Bank advances, long-term	60,000	60,000
Accrued expenses and other liabilities	5,969	6,293
Total liabilities	735,974	769,182
Commitments and contingent liabilities		
Stockholders equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding none		
Common stock, $0.01 par value; 100,000,000 authorized; March 31, 2013 8,292,660 shares issued June 30, 2012 8,960,366 shares issued	83	90
Additional paid-in capital	82,155	92,197
Retained earnings	68,662	66,723
Accumulated other comprehensive loss, net of tax	(162)	(169)

Unearned employee stock ownership plan (ESOP) shares	(4,382)	(4,693)
Total stockholders equity	146,356	154,148
Total liabilities and stockholders equity	$ 882,330	$ 923,330

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest income				
Interest and fees on loans	$ 8,559	$ 9,652	$ 27,171	$ 29,835
Interest on securities, taxable	165	187	334	521
Federal Home Loan Bank dividends	44	12	112	26
Other interest	34	73	115	235
Total interest income	8,802	9,924	27,732	30,617
Interest expense				
Interest on deposits	1,556	1,847	4,976	5,927
Interest on borrowings	243	713	1,140	2,227
Total interest expense	1,799	2,560	6,116	8,154
Net Interest Income	7,003	7,364	21,616	22,463
Provision for loan losses	400		1,850	
Net interest income after provision for loan losses	6,603	7,364	19,766	22,463
Service charges and fees	346	362	1,195	1,253
ATM fees and charges	524	576	1,579	1,649
Referral commissions	77	77	244	231
Bank-owned life insurance	112	117	342	361
Net gain on sales of loans	435		1,762	
Other noninterest income	122	7	130	16
Total noninterest income	1,616	1,139	5,252	3,510
Noninterest expense				
Salaries and benefits	2,942	2,942	9,630	8,401
Occupancy and equipment	740	647	2,180	1,995
ATM expense	564	492	1,668	1,529
Advertising and promotional	227	92	639	283
Professional services	505	615	1,551	1,582
Federal deposit insurance premiums	169	147	483	413
Postage	52	63	186	194
Telephone	211	211	658	604
REO foreclosure expenses and sales gains/losses, net	29	162	14	138
Loss on equity investment	85	45	192	185
Other operating expense	402	468	1,611	1,440

Total noninterest expense	5,926	5,884	18,812	16,764
Income before income tax expense	2,293	2,619	6,206	9,209
Income tax expense	864	972	2,277	3,461
Net income	$ 1,429	$ 1,647	$ 3,929	$ 5,748
Earnings per common share:				
Basic	$ 0.18	$ 0.18	$ 0.48	$ 0.63
Diluted	$ 0.18	$ 0.18	$ 0.48	$ 0.63

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	**2012**	**2013**	**2012**
Net income	$ 1,429	$ 1,647	$ 3,929	$ 5,748
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale	(218)	143	12	(35)
Income tax effect	90	(59)	(5)	15
Other comprehensive income (loss), net of tax	(128)	84	7	(20)
Comprehensive income	$ 1,301	$ 1,731	$ 3,936	$ 5,728

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders Equity

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock		Additional				
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Unearned ESOP Shares	Total
Balance, July 1, 2011	9,574,960	$ 96	$ 100,599	$ 61,832	$ (21)	$ (5,107)	$ 157,399
Net income				5,748			5,748
Other comprehensive loss unrealized loss on securities, net of tax					(20)		(20)
Dividends declared ($0.19 per share)				(1,727)			(1,727)
Repurchase of common stock	(435,075)	(4)	(5,883)				(5,887)
Stock options earned			45				45
Stock options exercised	7,194		78				78
Allocation of stock awards			112				112
Issuance of stock awards	33,664						
Forfeiture of stock awards	(8,000)						
Allocation of ESOP common stock (31,066 shares allocated)			77			311	388
Balance, March 31, 2012	9,172,743	$ 92	$ 95,028	$ 65,853	$ (41)	$ (4,796)	$ 156,136
Balance, July 1, 2012	8,960,366	$ 90	$ 92,197	$ 66,723	$ (169)	$ (4,693)	$ 154,148
Net income				3,929			3,929
Other comprehensive income unrealized gain on securities, net of tax					7		7
Dividends declared ($0.24 per share)				(1,990)			(1,990)
Repurchase of common stock	(700,770)	(7)	(10,492)				(10,499)
Stock options earned			28				28
Stock options exercised	6,475		70				70
Allocation of stock awards			200				200
Issuance of stock awards	34,154						
Forfeiture of stock awards	(7,565)						
Allocation of ESOP common stock (31,066 shares allocated)			152			311	463
Balance, March 31, 2013	8,292,660	$ 83	$ 82,155	$ 68,662	$ (162)	$ (4,382)	$ 146,356

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Nine Months Ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net income	$ 3,929	$ 5,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities	621	467
Amortization of net premiums on loan purchases	333	173
Accretion of net loan origination costs	(196)	(5)
Provision for loan losses	1,850	
Net gain on sale of REO	(94)	(55)
Net gain on sales of loans held for sale	(1,762)	
Loans originated for sale	(66,729)	
Proceeds from sales of loans held for sale	53,431	306
Depreciation and amortization	790	610
Amortization of core deposit intangible	13	22
Loss on equity investment	192	185
Earnings on cash surrender value of bank-owned life insurance	(342)	(361)
Allocation of ESOP common stock	463	388
Allocation of stock awards	200	112
Stock options earned	28	45
Net change in accrued interest receivable	238	112
Net change in other assets	(167)	264
Net change in accrued expenses and other liabilities	(324)	1,612
Net cash (used in) provided by operating activities	(7,526)	9,623
INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(20,686)	(57,271)
Proceeds from maturities and principal repayments of available-for-sale securities	15,257	14,822
Proceeds from maturities and principal repayments of held-to-maturity securities	585	727
Net change in interest earning time deposits with other financial institutions		11,669
Purchases of loans		(49,409)
Net change in loans	61,789	36,817
Proceeds from sale of real estate owned	1,635	1,173
Redemption of FHLB stock	1,926	1,366
Purchases of premises and equipment	(1,004)	(1,060)
Net cash provided by (used in) investing activities	59,502	(41,166)
FINANCING ACTIVITIES		
Proceeds from FHLB advances		60,000
Repayment of FHLB Advances	(20,000)	(20,000)
Dividends paid on common stock	(1,990)	(1,727)
Repurchase of common stock	(10,499)	(5,887)

Net change in deposits	(12,884)	48,177
Exercise of stock options	70	78
Net cash (used in) provided by financing activities	(45,303)	80,641
Net change in cash and cash equivalents	6,673	49,098
Cash and cash equivalents at beginning of period	66,018	89,654
Cash and cash equivalents at end of period	$ 72,691	$ 138,752
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$ 6,124	$ 8,171
Income taxes paid	1,950	2,174
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$ 521	$ 984

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Nature of Business and Significant Accounting Policies

Nature of Business: Simplicity Bancorp, Inc. (the Company), is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank (the Bank). In November, 2012, the Company changed its name to Simplicity Bancorp, Inc. from Kaiser Federal Financial Group, Inc. and its trading symbol to SMPL. Concurrently, the Bank was renamed Simplicity Bank from Kaiser Federal Bank as part of a broader business strategy to operate as a community bank serving the financial needs of all customers within its communities. The Company s primary activity is holding all of the outstanding shares of common stock of Simplicity Bank. The Bank is a federally chartered savings bank headquartered in Covina, California. The Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in its market area, and to a lesser extent, commercial real estate, automobile and other consumer loans. While the Bank originates many types of residential loans, the Bank also purchases, using its own underwriting standards, first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California.

The Company s business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

Principles of Consolidation and Basis of Presentation: The financial statements of Simplicity Bancorp, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and predominant practices followed by the financial services industry. The consolidated financial statements presented in this report include the accounts of Simplicity Bancorp, Inc. and its wholly-owned subsidiary, Simplicity Bank. All material intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company s management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.

The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2013. Certain information and note disclosures normally included in the Company s annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Use of Estimates in the Preparation of Consolidated Financial Statements: The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. 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 real estate owned, mortgage servicing assets (MSAs) and financial instruments.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Loans held for sale consist primarily of long-term fixed-rate loans secured by first trust deeds on one-to-four-family residences that are Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) loan products. The loans are offered to customers located in California and are generally sold with servicing rights retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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Mortgage Servicing Assets: Mortgage servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. MSAs are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of MSAs are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Impairment is determined by stratifying servicing assets into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. Any subsequent increase or decrease in fair value of servicing assets is included with servicing fee income. Servicing fee income, which is reported on the income statement as service charges and fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.

Recent Accounting Pronouncements:

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In February 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company s result of operations or financial position.

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Note 2 Earnings Per Share

The following table sets forth earnings per share calculations for the three and nine months ended March 31, 2013 and 2012:

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Basic				
Net income	$ 1,429	$ 1,647	$ 3,929	$ 5,748
Less: Net income allocated to restricted stock awards	(10)	(8)	(29)	(29)
Net income allocated to common shareholders	$ 1,419	$ 1,639	$ 3,900	$ 5,719
Weighted average common shares outstanding	7,944,821	8,974,368	8,189,720	9,049,148
Basic earnings per common share	$ 0.18	$ 0.18	$ 0.48	$ 0.63
Diluted				
Net income	$ 1,429	$ 1,647	$ 3,929	$ 5,748
Less: Net income allocated to restricted stock awards	(10)	(8)	(29)	(29)
Net income allocated to common shareholders	$ 1,419	$ 1,639	$ 3,900	$ 5,719
Weighted average common shares outstanding	7,944,821	8,974,368	8,189,720	9,049,148
Add: Dilutive effect of stock options	17,997	9,171	19,199	4,638
Average shares and dilutive potential common shares	7,962,818	8,983,539	8,208,919	9,053,786
Diluted earnings per common share	$ 0.18	$ 0.18	$ 0.48	$ 0.63

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings per share is determined for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Restricted stock contains rights to non-forfeitable dividends and qualifies as a participating security. Employee Stock Ownership Plan (ESOP) shares are considered outstanding for this calculation unless unearned. For the three months and nine months ended March 31, 2013 and 2012, 10,355 and 31,066 ESOP shares were allocated, respectively. 393,497 ESOP shares remained unearned at March 31, 2013 as compared to 434,918 ESOP shares remained unearned at March 31, 2012.

Basic earnings per common share is net income allocated to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. For the three and nine months ended March 31, 2013, outstanding stock options to purchase 104,084 and 108,130 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. For the three and nine months ended March 31, 2012, outstanding stock options to purchase 119,270 and 137,255 shares were anti-dilutive and not considered in computing diluted earnings per common share. Stock options are not considered participating securities as they do not contain rights to non-forfeitable dividends.

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Note 3 Fair Value Measurements

FASB Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three and nine months ended March 31, 2013 and 2012.

Investment Securities: The fair values of investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Mortgage Servicing Assets: MSAs are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair value is determined at a tranche level, based on a valuation model that calculates the present value of estimated future net servicing income. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data such as prepayment speeds, ancillary income, servicing costs, delinquency rates. The significant assumptions also include discount rate incorporated into the valuation model that reflect management s best estimate resulting in a level 3 classification.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive allocations of the allowance for loan losses that are individually evaluated. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower s financial statements, or aging reports, adjusted or discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

As of March 31, 2013 and June 30, 2012, there were no liabilities measured at fair value.

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Assets measured at fair value on a recurring basis are summarized in the following table (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at March 31, 2013:				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 33,200	$	$ 33,200	$
Collateralized mortgage obligations (residential)	25,017		25,017	
Total available-for-sale securities	$ 58,217	$	$ 58,217	$
Assets at June 30, 2012:				
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 19,371	$	$ 19,371	$
Collateralized mortgage obligations (residential)	34,026		34,026	
Total available-for-sale securities	$ 53,397	$	$ 53,397	$

Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The following assets were measured at fair value on a non-recurring basis (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at March 31, 2013:				
Impaired Loans				
One-to-four family residential	$ 3,076	$	$	$ 3,076
Mortgage Servicing Assets	$ 428	$	$	$ 428
Assets at June 30, 2012:				
Impaired Loans				
One-to-four family residential	$ 11,359	$	$	$ 11,359
Multi-family residential	1,456			1,456
Commercial real estate	1,299			1,299
Total impaired loans	$ 14,114	$	$	$ 14,114

Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment using the fair value of the collateral for collateral dependent loans. The fair value of collateral is calculated using an independent third party appraisal. Impaired loans measured at fair value had a recorded investment balance of $3.8 million at March 31, 2013 as compared to $16.9 million at June 30, 2012. The valuation allowance for these loans was $697,000 at March 31, 2013 as compared to $2.8 million at June 30, 2012. The reduction in valuation allowance for impaired loans during the nine months ended March 31, 2013 was primarily attributable to charge-offs of specific valuation allowances previously identified and payoffs on impaired loans individually evaluated.

Impairment of MSAs is determined at the tranche level and recognized through a valuation allowance for each individual grouping, to the extent that fair value is less than the carrying amount. At March 31, 2013, an impairment of $63,000 was recognized through valuation allowance for the excess of carrying value over fair value during the three and nine months ended March 31, 2013. There were no MSAs recorded for the three and nine months ended March 31, 2012.

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Real estate owned is measured at fair value less estimated costs to sell at transfer. If the fair value of the asset declines, a write-down is recorded through expense. During the three and nine months ended March 31, 2013 and March 31, 2012, the Company did not incur a charge to reduce real estate owned to fair value.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2013 (dollars in thousands):

March 31, 2013	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired Loans				
One-to-four family residential				-8.7% to 2.7%
	$ 3,076	Sales Comparison Approach	Adjustment for the differences between the comparable sales	(-2.43%)
Mortgage Servicing Assets	$ 428	Discounted Cash Flow	Discount Rate	7.5%

Fair Value of Financial Instruments

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values. Cash on hand and non-interest due from bank accounts are classified as Level 1 and federal funds sold are classified as Level 2.

Investments

Estimated fair values for securities held-to-maturity are obtained from quoted market prices where available and are classified as Level 1. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and are classified as Level 2.

Securities available-for-sale that are previously reported are excluded from the fair value disclosure below.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

Fair value for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously and are excluded from the fair value disclosure below. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Loans Held for Sale

Fair value for loans held for sale is determined using quoted secondary-market prices such as loan sale commitments and is classified as Level 2.

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Accrued Interest Receivable

Consistent with the asset or liability they are associated with, the carrying amounts of accrued interest receivable approximate fair value resulting in either a Level 2 or Level 3 classification.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB Advances

The fair values of the Company s FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-Balance Sheet Financial Instruments

The fair values for the Company s off-balance sheet loan commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the Company s customers. The estimated fair value of these commitments is not significant.

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The carrying amounts and estimated fair values of the Company s financial instruments are summarized as follows (in thousands):

		Fair Value Measurements at March 31, 2013 Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 8,886	$ 8,886	$	$	$ 8,886
Federal funds sold	63,805		63,805		63,805
Securities held-to-maturity	612		629		629
Federal Home Loan Bank Stock	6,599				
Loans held for sale	15,060		15,512		15,512
Loans receivable, net	697,344			710,597	710,597
Accrued interest receivable loans	2,435			2,435	2,435
Accrued interest receivable investments	105		105		105
Financial liabilities:					
Deposits	670,005		677,812		677,812
FHLB Advances	60,000		62,058		62,058

		Fair Value Measurements at June 30, 2012 Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash on hand	$ 9,783	$ 9,783	$	$	$ 9,783
Federal funds sold	56,235		56,235		56,235
Securities held-to-maturity	1,197		1,229		1,229
Federal Home Loan Bank Stock	8,525				
Loans receivable, net	750,603			777,672	777,672
Accrued interest receivable loans	2,676			2,676	2,676
Accrued interest receivable investments	102		102		102
Financial liabilities:					
Deposits	682,889		692,971		692,971
FHLB Advances	80,000		82,960		82,960

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Note 4 Investments

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows (in thousands):

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
March 31, 2013				
Mortgage-backed (residential):				
Fannie Mae	$ 9,708	$ 165	$	$ 9,543
Freddie Mac	23,492	40	(103)	23,555
Collateralized mortgage obligations (residential):				
Fannie Mae	14,991	37	(36)	14,990
Freddie Mac	10,026	52	(2)	9,976
Total	$ 58,217	$ 294	$ (141)	$ 58,064
June 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 13,961	$ 183	$	$ 13,778
Freddie Mac	5,410	46		5,364
Collateralized mortgage obligations (residential):				
Fannie Mae	21,060	8	(108)	21,160
Freddie Mac	12,966	26	(14)	12,954
Total	$ 53,397	$ 263	$ (122)	$ 53,256

The carrying amount, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows (in thousands):

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2013				
Mortgage-backed (residential):				
Fannie Mae	$ 122	$ 4	$	$ 126
Freddie Mac	78	4		82
Ginnie Mae	38	2		40
Collateralized mortgage obligations: (residential)				
Fannie Mae	374	7		381
Total	$ 612	$ 17	$	$ 629
June 30, 2012				
Mortgage-backed (residential):				
Fannie Mae	$ 133	$ 3	$	$ 136
Freddie Mac	92	6		98
Ginnie Mae	44	2		46
Collateralized mortgage obligations: (residential)				
Fannie Mae	596	17		613
Freddie Mac	332	4		336

Total	$ 1,197	$ 32	$	$ 1,229

There were no sales of securities during the three and nine months ended March 31, 2013 and March 31, 2012.

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All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at March 31, 2013. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties. There were no securities called prior to the maturity date during the three and nine month ended March 31, 2013.

Securities with unrealized losses at March 31, 2013 and June 30, 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2013						
Description of Securities						
Mortgage-backed securities	$ 19,814	$ (103)	$	$	$ 19,814	$ (103)
Collateralized mortgage obligations (residential)	3,767	(3)	3,000	(35)	6,767	(38)
Total temporarily impaired	$ 23,581	$ (106)	$ 3,000	$ (35)	$ 26,581	$ (141)
June 30, 2012						
Description of Securities						
Collateralized mortgage obligations (residential)	$ 18,390	$ (84)	$ 3,026	$ (38)	$ 21,416	$ (122)
Total temporarily impaired	$ 18,390	$ (84)	$ 3,026	$ (38)	$ 21,416	$ (122)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether the Company has the intent to sell these securities or is more likely than not that the Company will be required to sell the securities before their anticipated recovery. In analyzing an issuer s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

At March 31, 2013, seven debt securities had an aggregate unrealized loss of 0.2% of the Company s amortized cost basis. At June 30, 2012, six debt securities had an unrealized loss of 0.2% of the Company s amortized cost basis. The unrealized losses related principally to the general change in interest rates and liquidity, and not credit quality, that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management has the intent and ability to hold debt securities until recovery, which may be maturity, and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, no declines in fair value are deemed to be other-than-temporary as of March 31, 2013 and June 30, 2012.

There were no investments in any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

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Note 5 Loans

The composition of loans held for investment consists of the following (in thousands):

	March 31, 2013	June 30, 2012
Real Estate:		
One-to-four family residential	$ 325,476	$ 371,251
Multi-family residential	276,849	283,553
Commercial real estate	66,736	86,964
	669,061	741,768
Consumer:		
Automobile	23,042	17,349
Home equity	685	808
Other consumer loans, primarily secured	12,818	10,722
	36,545	28,879
Total loans held for investment	705,606	770,647
Deferred net loan origination costs	628	615
Net premium on purchased loans	624	957
Allowance for loan losses	(6,438)	(7,502)
	$ 700,420	$ 764,717

Loans held for sale totaled $15.1 million as of March 31, 2013. There were no loans held for sale at June 30, 2012. Loans held for sale are recorded at the lower of cost or fair value. Fair value, if lower than cost, is determined based on valuations obtained from market participants or the value of the underlying collateral. Proceeds from sales of loans held for sale were $53.4 million during the nine months ended March 31, 2013, resulting in net gain on sales of $1.8 million.