LAKE SHORE BANCORP, INC.
Form 10-Q
November 13, 2018

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018

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

Commission File No.: 000-51821

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

| | |
|---|---|
| United States | 20-4729288 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 31 East Fourth Street, Dunkirk, New York | 14048 |

(Address(Zip code)
of
principal
executive
offices)

(716) 366-4070
(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, 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 every Interactive Data File required to be submitted 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 such files).

Yes [X]No [ ]

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

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

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

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

Yes [ ] No [X]

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

There were 6,019,919 shares of the registrant's common stock, $0.01 par value per share, outstanding at November 8, 2018.

TABLE OF CONTENTS

PART I Financial Information

Item 1. Financial Statements

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Financial Condition

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| | (Dollars in thousands, except share data) | |
| Assets | | |
| Cash and due from banks | $ 7,792 | $ 7,709 |
| Interest earning deposits | 2,459 | 6,570 |
| Federal funds sold | 27,818 | 26,634 |
| Cash and Cash Equivalents | 38,069 | 40,913 |
| Securities available for sale | 83,147 | 80,421 |
| Federal Home Loan Bank stock, at cost | 1,545 | 1,631 |
| Loans receivable, net of allowance for loan losses 2018 $3,388; 2017 $3,283 | 388,437 | 365,063 |
| Premises and equipment, net | 9,383 | 9,373 |
| Accrued interest receivable | 2,044 | 1,801 |
| Bank owned life insurance | 20,100 | 18,077 |
| Other assets | 3,428 | 1,698 |
| Total Assets | $ 546,153 | $ 518,977 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits: | | |
| Interest bearing | $ 376,892 | $ 350,535 |
| Non-interest bearing | 59,009 | 54,618 |
| Total Deposits | 435,901 | 405,153 |
| Long-term debt | 24,650 | 26,950 |
| Advances from borrowers for taxes and insurance | 1,625 | 3,000 |
| Other liabilities | 5,176 | 5,499 |
| Total Liabilities | $ 467,352 | $ 440,602 |
| Stockholders' Equity | | |
| Common stock, $0.01 par value per share, 25,000,000 shares authorized; 6,827,741 shares issued and 6,046,819 shares outstanding at September 30, 2018 and 6,827,741 shares issued and 6,098,323 shares outstanding at December 31, 2017 | $ 68 | $ 68 |

| | | |
|---|---|---|
| Additional paid-in capital | 30,870 | 30,719 |
| Treasury stock, at cost (780,922 shares at September 30, 2018 and 729,418 shares at December 31, 2017) | (8,137) | (7,309) |
| Unearned shares held by ESOP | (1,471) | (1,535) |
| Unearned shares held by compensation plans | (273) | (540) |
| Retained earnings | 58,339 | 56,181 |
| Accumulated other comprehensive (loss) income | (595) | 791 |
| Total Stockholders' Equity | 78,801 | 78,375 |
| Total Liabilities and Stockholders' Equity | $ 546,153 | $ 518,977 |

See notes to consolidated financial statements.

1

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (Unaudited) (Dollars in thousands, except per share data) | | | |
| Interest Income | | | | |
| Loans, including fees | $ 4,663 | $ 4,289 | $ 13,480 | $ 12,456 |
| Investment securities, taxable | 267 | 189 | 753 | 597 |
| Investment securities, tax-exempt | 403 | 388 | 1,193 | 1,259 |
| Other | 157 | 81 | 439 | 167 |
| Total Interest Income | 5,490 | 4,947 | 15,865 | 14,479 |
| Interest Expense | | | | |
| Deposits | 783 | 523 | 2,101 | 1,499 |
| Long-term debt | 134 | 139 | 413 | 328 |
| Other | 38 | 20 | 77 | 62 |
| Total Interest Expense | 955 | 682 | 2,591 | 1,889 |
| Net Interest Income | 4,535 | 4,265 | 13,274 | 12,590 |
| Provision for Loan Losses | 125 | 75 | 315 | 450 |
| Net Interest Income after Provision for Loan Losses | 4,410 | 4,190 | 12,959 | 12,140 |
| Non-Interest Income | | | | |
| Service charges and fees | 457 | 441 | 1,371 | 1,353 |
| Earnings on bank owned life insurance | 103 | 91 | 273 | 268 |
| Unrealized (loss) gain on equity securities | (5) | - | 9 | - |
| Recovery on previously impaired investment securities | 34 | 25 | 124 | 96 |
| Gain on sale of securities available for sale | - | 22 | - | 244 |
| Net gain on sale of loans | 4 | 1 | 10 | 10 |
| Other | 36 | 37 | 89 | 83 |
| Total Non-Interest Income | 629 | 617 | 1,876 | 2,054 |
| Non-Interest Expenses | | | | |
| Salaries and employee benefits | 2,083 | 1,898 | 6,182 | 5,610 |
| Occupancy and equipment | 587 | 565 | 1,735 | 1,740 |
| Data processing | 337 | 320 | 1,000 | 937 |
| Professional services | 237 | 231 | 716 | 703 |
| Advertising | 151 | 127 | 473 | 439 |
| Postage and supplies | 71 | 53 | 189 | 197 |
| FDIC Insurance | 40 | 38 | 114 | 111 |
| Other | 331 | 381 | 968 | 955 |
| Total Non-Interest Expenses | 3,837 | 3,613 | 11,377 | 10,692 |
| Income before Income Taxes | 1,202 | 1,194 | 3,458 | 3,502 |
| Income Tax Expense | 144 | 254 | 458 | 704 |
| Net Income | $ 1,058 | $ 940 | $ 3,000 | $ 2,798 |
| Basic and diluted earnings per common share | $ 0.17 | $ 0.15 | $ 0.49 | $ 0.46 |
| Dividends declared per share | $ 0.10 | $ 0.08 | $ 0.30 | $ 0.24 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (Unaudited) (Dollars in thousands) | |
| Net Income | $ 1,058 | 940 |
| Other Comprehensive Loss, net of tax benefit: | | |
| Unrealized holding losses on securities available for sale, net of tax benefit | (467) | (60) |
| Reclassification adjustments related to: | | |
| Recovery on previously impaired investment securities included in net income, net of tax expense | (27) | (16) |
| Net gain on sale of securities included in net income, net of tax expense | - | (15) |
| Total Other Comprehensive Loss | (494) | (91) |
| Total Comprehensive Income | $ 564 | $ 849 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (Unaudited) (Dollars in thousands) | |
| Net Income | $ 3,000 | $ 2,798 |
| Other Comprehensive Loss, net of tax benefit: | | |
| Unrealized holding losses on securities available for sale, net of tax benefit | (1,444) | (34) |
| Reclassification adjustments related to: | | |
| Recovery on previously impaired investment securities included in net income, net of tax expense | (98) | (63) |
| Net gain on sale of securities included in net income, net of tax expense | - | (161) |
| Total Other Comprehensive Loss | (1,542) | (258) |
| Total Comprehensive Income | $ 1,458 | $ 2,540 |

See notes to consolidated financial statements.

3

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Nine Months Ended September 30, 2018 and 2017 (Unaudited)

| | Common Stock | Additional Paid-In Capital | Treasury Stock | Unearned Shares Held by ESOP | Unearned Shares Held by Compensation Plans | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands, except share and per share data) | | | | | | | |
| Balance - January 1, 2017 | $ 68 | $ 30,532 | $ (7,300) | $ (1,620) | $ (578) | $ 53,546 | $ 1,382 | $ 76,030 |
| Net income | - | - | - | - | - | 2,798 | - | 2,798 |
| Other comprehensive loss, net of tax benefit of $133 | - | - | - | - | - | - | (258) | (258) |
| ESOP shares earned (5,951 shares) | - | 30 | - | 64 | - | - | - | 94 |
| Stock based compensation | - | 33 | - | - | - | - | - | 33 |
| Compensation plan shares granted (27,348 shares) | - | - | 270 | - | (270) | - | - | - |
| Compensation plan shares forfeited (1,104 shares) | - | - | (10) | - | 10 | - | - | - |
| Compensation plan shares earned (20,569 shares) | - | 72 | - | - | 220 | - | - | 292 |
| Purchase of treasury stock, at cost (17,100 shares) | - | - | (269) | - | - | - | - | (269) |
| Cash dividends declared ($0.24 per share) | - | - | - | - | - | (559) | - | (559) |
| Balance - September 30, 2017 | $ 68 | $ 30,667 | $ (7,309) | $ (1,556) | $ (618) | $ 55,785 | $ 1,124 | $ 78,161 |
| | | | | | | | | |
| Balance - January 1, 2018 | $ 68 | $ 30,719 | $ (7,309) | $ (1,535) | $ (540) | $ 56,181 | $ 791 | $ 78,375 |
| Net income | - | - | - | - | - | 3,000 | - | 3,000 |
| Other comprehensive loss, net of tax benefit of $410 | - | - | - | - | - | - | (1,542) | (1,542) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI | - | - | - | - | - | (156) | 156 | - |
| ESOP shares earned (5,951 shares) | - | 36 | - | 64 | - | - | - | 100 |
| Stock based compensation | - | 33 | - | - | - | - | - | 33 |
| Compensation plan shares granted (5,329 shares) | - | - | 51 | - | (51) | - | - | - |
| Compensation plan shares forfeited (10,433 shares) | - | - | (99) | - | 93 | - | - | (6) |
| Compensation plan shares earned (21,366 shares) | - | 82 | - | - | 225 | - | - | 307 |
| Purchase of treasury stock, at cost (46,400 shares) | - | - | (780) | - | - | - | - | (780) |
| Cash dividends declared ($0.30 per share) | - | - | - | - | - | (686) | - | (686) |
| Balance - September 30, 2018 | $ 68 | $ 30,870 | $ (8,137) | $ (1,471) | $ (273) | $ 58,339 | $ (595) | $ 78,801 |

See notes to consolidated financial statements.

4

Lake Shore Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (Unaudited) (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 3,000 | $ 2,798 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net amortization of investment securities | 66 | 88 |
| Net amortization of deferred loan costs | 423 | 425 |
| Provision for loan losses | 315 | 450 |
| Recovery on previously impaired investment securities | (124) | (96) |
| Unrealized gain on equity securities | (9) | - |
| Gain on sale of investment securities | - | (244) |
| Originations of loans held for sale | (777) | (796) |
| Proceeds from sales of loans held for sale | 787 | 806 |
| Gain on sale of loans | (10) | (10) |
| Depreciation and amortization | 579 | 648 |
| Increase in bank owned life insurance, net | (273) | (268) |
| ESOP shares committed to be released | 100 | 94 |
| Stock based compensation expense | 334 | 325 |
| Increase in accrued interest receivable | (243) | (234) |
| (Increase) decrease in other assets | (6) | 161 |
| Decrease in other liabilities | (323) | (99) |
| Net Cash Provided by Operating Activities | 3,839 | 4,048 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Activity in available for sale securities: | | |
| Sales | - | 6,510 |
| Maturities, prepayments and calls | 6,215 | 8,980 |
| Purchases | (10,826) | (2,402) |
| Purchases of Federal Home Loan Bank Stock | (20) | (375) |
| Redemptions of Federal Home Loan Bank Stock | 106 | 84 |
| Loan origination and principal collections, net | (25,426) | (37,384) |
| Additions to premises and equipment | (589) | (1,294) |
| Purchase of bank owned life insurance | (1,750) | - |
| Net Cash Used in Investing Activities | (32,290) | (25,881) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | 30,748 | 15,030 |
| Net decrease in advances from borrowers for taxes and insurance | (1,375) | (1,475) |
| Proceeds from issuance of long-term debt | 1,500 | 9,700 |
| Repayment of long-term debt | (3,800) | (1,700) |
| Purchase of treasury stock | (780) | (269) |
| Cash dividends paid | (686) | (559) |
| Net Cash Provided by Financing Activities | 25,607 | 20,727 |
| Net Decrease in Cash and Cash Equivalents | (2,844) | (1,106) |
| CASH AND CASH EQUIVALENTS - BEGINNING | 40,913 | 45,479 |

| | | |
|---|---|---|
| CASH AND CASH EQUIVALENTS - ENDING | $ 38,069 | $ 44,373 |
| SUPPLEMENTARY CASH FLOWS INFORMATION | | |
| Interest paid | $ 2,564 | $ 1,869 |
| Income taxes paid | $ 477 | $ 750 |
| | | |
| SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING ACTIVITIES | | |
| Foreclosed real estate acquired in settlement of loans | $ 1,495 | $ 554 |

See notes to consolidated financial statements.

Lake Shore Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

## Note 1 – Basis of Presentation

The interim consolidated financial statements include the accounts of Lake Shore Bancorp, Inc. (the “Company”, “us”, “our”, or “we”) and Lake Shore Savings Bank (the “Bank”), its wholly owned subsidiary. All intercompany accounts and transactions of the consolidated subsidiary have been eliminated in consolidation.

The interim consolidated financial statements included herein as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and therefore, do not include all information or footnotes necessary for a complete presentation of the consolidated statements of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated statement of financial condition at December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information and to make the financial statements not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The consolidated statements of income for the three and nine months ended September 30, 2018 are not necessarily indicative of the results for any subsequent period or the entire year ending December 31, 2018.

To prepare these consolidated financial statements in conformity with GAAP, management of the Company made a number of estimates and assumptions relating to the reporting of assets and liabilities and the reporting of revenue and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, securities valuation estimates, evaluation of impairment of securities and income taxes.

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition as of September 30, 2018 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

## Note 2 – New Accounting Standards

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update ( “ASU”) 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (ASU 2018-02) on January 1, 2018. ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017 that changed the Company’s tax rate from 34% to 21%. ASU 2018-02 allows an entity to elect a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects resulting from the Tax Act. The amount of that reclassification should include the effect of tax rate changes on the deferred tax amount, any related valuation allowance and other income tax effects on the items in AOCI. Upon adoption of ASU 2018-02, the Company reclassified the income tax effect of the Tax Act from AOCI to retained earnings. The reclassification increased AOCI and decreased retained earnings by $156,000, with zero net effect on total shareholders’ equity. The Company uses the individual security approach for all available for sale securities when releasing income tax effects remaining in AOCI.

In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (“ASU 2018-11”). ASU 2018-11 makes targeted improvements in order to provide relief to an entity’s costs to implement certain aspects of ASU 2016-02 “Leases” (Topic 842)” (“ASU 2016-02”). ASU 2018-11 allows lessors to combine lease and associated non-lease components by class of underlying asset in contracts that meet certain criteria. For a lessor to qualify for this practical expedient, the lease and related non-lease components must have the same timing and pattern of transfer, and the lease component, if accounted for on a stand-alone basis, would be classified as an operating lease. ASU 2018-11 also provides entities with an optional transition method that allows entities to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the ASU 2016-02 adoption period. This method eliminates the requirement for entities to restate the comparative periods presented to comply with ASU 2016-02. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018, and is to be applied on a modified retrospective basis. The amount of assets and liabilities to be added to the balance sheet under ASU 2016-02 and ASU 2018-11 are not expected to have a material impact on the Company's consolidated financial statements per preliminary estimates.

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement" (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 clarifies the fair value measurement disclosure requirements of Accounting Standards Codification ("ASC") 820 by adding, eliminating and modifying certain disclosure requirements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This update is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss ("CECL") model). Under the CECL model entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. Further, ASU 2016-13 made certain targeted amendments to the existing impairment for available for sale ("AFS") debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. ASU 2016-13 is effective for public business entities that are U.S. Securities and Exchange Commission ("SEC") filers for fiscal periods beginning after December 15, 2019, including interim reporting periods within those periods. An entity will apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently assessing the potential impact on our consolidated financial statements; however, due to the significant differences in the revised guidance from existing GAAP, the implementation of this guidance may result in material changes in our accounting for credit losses on financial instruments. We are also reviewing the impact of additional disclosures required under ASU 2016-13 on our ongoing financial reporting. Alternative methodologies are being considered, data requirements and integrity are being reviewed and enhancements to the current process are being considered. The Company is continuing to evaluate and implement this guidance.

Note 3 – Investment Securities

Debt Securities

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

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (Dollars in thousands) | | | |
| SECURITIES AVAILABLE FOR SALE: | | | | |
| Debt Securities | | | | |
| U.S. Government Agencies | $ 2,012 | $ - | $ (123) | $ 1,889 |
| Municipal bonds | 46,174 | 522 | (265) | 46,431 |
| Mortgage-backed securities: | | | | |
| Collateralized mortgage obligations-private label | 27 | - | - | 27 |
| Collateralized mortgage obligations-government sponsored entities | 31,626 | 4 | (1,165) | 30,465 |
| Government National Mortgage Association | 196 | 6 | - | 202 |
| Federal National Mortgage Association | 2,477 | 28 | (37) | 2,468 |
| Federal Home Loan Mortgage Corporation | 1,314 | 13 | (29) | 1,298 |
| Asset-backed securities-private label | - | 291 | - | 291 |
| Asset-backed securities-government sponsored entities | 44 | 1 | - | 45 |
| Total Debt Securities | $ 83,870 | $ 865 | $ (1,619) | $ 83,116 |
| Equity Securities | 22 | 9 | - | 31 |
| Total Securities Available for Sale | $ 83,892 | $ 874 | $ (1,619) | $ 83,147 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (Dollars in thousands) | | | |
| SECURITIES AVAILABLE FOR SALE: | | | | |
| Debt Securities | | | | |
| U.S. Government Agencies | $ 2,013 | $ - | $ (26) | $ 1,987 |
| Municipal bonds | 44,256 | 1,312 | (6) | 45,562 |
| Mortgage-backed securities: | | | | |
| Collateralized mortgage obligations-private label | 30 | - | - | 30 |
| Collateralized mortgage obligations-government sponsored entities | 28,195 | 28 | (569) | 27,654 |
| Government National Mortgage Association | 229 | 16 | - | 245 |
| Federal National Mortgage Association | 2,834 | 95 | - | 2,929 |
| Federal Home Loan Mortgage Corporation | 1,518 | 35 | - | 1,553 |
| Asset-backed securities-private label | 69 | 276 | (1) | 344 |
| Asset-backed securities-government sponsored entities | 57 | 3 | - | 60 |
| Total Debt Securities | $ 79,201 | $ 1,765 | $ (602) | $ 80,364 |
| Equity Securities | 22 | 35 | - | 57 |
| Total Securities Available for Sale | $ 79,223 | $ 1,800 | $ (602) | $ 80,421 |

Debt Securities

All of our collateralized mortgage obligations are backed by one- to four-family residential mortgages.

At September 30, 2018, thirty-two municipal bonds with a cost of $11.0 million and fair value of $11.1 million were pledged under a collateral agreement with the Federal Reserve Bank (“FRB”) of New York for liquidity borrowing. At December 31, 2017, thirty-three municipal bonds with a cost of $11.3 million and fair value of $11.7 million were pledged with the FRB. In addition, at September 30, 2018, twenty-one municipal bonds with a cost and fair value of $5.6 million were pledged as collateral for customer deposits in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. At December 31, 2017, twenty municipal bonds with a cost of $5.1 million and fair value of $5.3 million were pledged as collateral for customer deposits in excess of the FDIC insurance limits.

The following table sets forth the Company’s investment in debt securities available for sale with gross unrealized losses of less than twelve months and gross unrealized losses of twelve months or more and associated fair values as of the dates indicated:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (Dollars in thousands) | | | | | |
| September 30, 2018 | | | | | | |
| U.S. Government Agencies | $ 1,889 | $ (123) | $ - | $ - | $ 1,889 | $ (123) |
| Municipal bonds | 8,057 | (255) | 554 | (10) | 8,611 | (265) |
| Mortgage-backed securities | 15,304 | (326) | 17,068 | (905) | 32,372 | (1,231) |
| | $ 25,250 | $ (704) | $ 17,622 | $ (915) | $ 42,872 | $ (1,619) |

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2017 | | | | | | |
| U.S. Government Agencies | $ 1,987 | $ (26) | $ - | $ - | $ 1,987 | $ (26) |
| Municipal bonds | 491 | (6) | - | - | 491 | (6) |
| Mortgage-backed securities | 7,547 | (57) | 17,602 | (512) | 25,149 | (569) |
| Asset-backed securities -private label | 68 | (1) | - | - | 68 | (1) |
| | $ 10,093 | $ (90) | $ 17,602 | $ (512) | $ 27,695 | $ (602) |

The Company reviews all investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") with formal reviews performed quarterly.

At September 30, 2018, the Company's investment portfolio included several debt securities in the "unrealized losses less than twelve months" category. The debt securities were not evaluated further for OTTI as the unrealized losses on the individual debt securities were less than 20% of book value, which management deemed to be immaterial, the securities were issued by government sponsored enterprises and management has the intent and ability to hold these securities.

At September 30, 2018, the Company had several debt securities in the "unrealized losses twelve months or more" category. These securities were not evaluated further for OTTI, as the unrealized losses were less than 20% of book value and management has the intent and ability to hold until maturity. Management believes the temporary impairments were due to declines in fair value resulting from changes in interest rates and/or increased credit liquidity spreads since the securities were purchased.

Management completed an OTTI analysis for two private label asset-backed securities, which did not have unrealized losses as of September 30, 2018. Management concluded that there was a limited risk of principal losses for these securities and that additional OTTI charges were not required as of September 30, 2018 on these securities.

The unrealized losses on debt securities shown in the previous tables were recorded as a component of other comprehensive loss, net of tax benefit on the Company’s Consolidated Statements of Stockholders’ Equity.

The following table presents a summary of the credit-related OTTI charges recognized as components of income:

| | For The Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| Beginning balance | $ 435 | $ 554 |
| Additions: | | |
| Credit loss not previously recognized | - | - |
| Reductions: | | |
| Losses realized during the period on OTTI previously recognized | - | - |
| Receipt of cash flows on previously recorded OTTI | (67) | (96) |
| Ending balance | $ 368 | $ 458 |

A deterioration in credit quality and/or other factors that may limit the liquidity of a security in our portfolio might adversely affect the fair values of the Company's investment portfolio and may increase the potential that certain unrealized losses will be designated as "other-than-temporary" and that the Company may incur additional write-downs in future periods.

During the nine months ended September 30, 2018, the Company did not sell any available for sale debt securities. During the nine months ended September 30, 2017, the Company sold eighteen municipal bonds for total proceeds of $6.5 million resulting in realized gains of $244,000.

Equity Securities

At September 30, 2018 and December 31, 2017, available for sale equity securities consisted of 22,368 shares of Federal Home Loan Mortgage Corporation ("FHLMC") common stock. During the nine months ended September 30, 2018, the Company recognized an unrealized gain of $9,000 on the equity securities, which was recorded in noninterest income in the consolidated statements of income. There were no sales of equity securities during the nine months ended September 30, 2018.

Scheduled contractual maturities of available for sale securities are as follows:

| | Amortized Cost | Fair Value |
|---|---|---|

| | | |
|---|---|---|
| | (Dollars in thousands) | |
| September 30, 2018: | | |
| After one year through five years | $ 5,472 | $ 5,570 |
| After five years through ten years | 24,450 | 24,772 |
| After ten years | 18,264 | 17,978 |
| Mortgage-backed securities | 35,640 | 34,460 |
| Asset-backed securities | 44 | 336 |
| Equity securities | 22 | 31 |
| | $ 83,892 | $ 83,147 |

Note 4 - Allowance for Loan Losses

Management segregates the loan portfolio into loan types and analyzes the risk level for each loan type when determining its allowance for loan losses. The loan types are as follows:

Real Estate Loans:

- One- to Four-Family – are loans secured by first lien collateral on residential real estate primarily held in the Western New York region. These loans can be affected by economic conditions and the value of underlying properties. Western New York's housing market has consistently demonstrated stability in home prices despite economic conditions. Furthermore, the Company has conservative underwriting standards and its residential lending policies and procedures ensure that its one- to four-family residential mortgage loans generally conform to secondary market guidelines.
- Home Equity - are loans or lines of credit secured by first or second liens on owner-occupied residential real estate primarily held in the Western New York region. These loans can also be affected by economic conditions and the values of underlying properties. Home equity loans may have increased risk of loss if the Company does not hold the first mortgage resulting in the Company being in a secondary position in the event of collateral liquidation. The Company does not originate interest only home equity loans.
- Commercial Real Estate – are loans used to finance the purchase of real property, which generally consists of developed real estate that is held as first lien collateral for the loan. These loans are secured by real estate properties that are primarily held in the Western New York region. Commercial real estate lending involves additional risks compared with one- to four-family residential lending, because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the coll