Waterstone Financial, Inc.
Form 10-Q
April 29, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

T Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-36271

WATERSTONE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	90-1026709
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11200 W. Plank Court Wauwatosa, Wisconsin	53226
(Address of principal executive offices)	(Zip Code)

(414) 761-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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.

Large accelerated filer	Accelerated filer T	Non-accelerated filer (Do not check if smaller reporting company)	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 T

The number of shares outstanding of the issuer's common stock, $0.01 par value per share, was 29,137,029 at April 28, 2016.

WATERSTONE FINANCIAL, INC.

10-Q INDEX

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) March 31, 2016	December 31, 2015
	(Dollars In Thousands, except share and per share data)	
Assets		
Cash	$79,077	57,419
Federal funds sold	22,877	20,297
Interest-earning deposits in other financial institutions and other short term investments	20,760	22,755
Cash and cash equivalents	122,714	100,471
Securities available for sale (at fair value)	267,733	269,658
Loans held for sale (at fair value)	107,387	166,516
Loans receivable	1,112,237	1,114,934
Less: Allowance for loan losses	15,805	16,185
Loans receivable, net	1,096,432	1,098,749
Office properties and equipment, net	25,109	25,328
Federal Home Loan Bank stock (at cost)	19,500	19,500
Cash surrender value of life insurance	59,803	49,562
Real estate owned, net	8,304	9,190
Prepaid expenses and other assets	30,596	23,755
Total assets	$1,737,578	1,762,729
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits	$101,934	102,673
Money market and savings deposits	147,074	140,631
Time deposits	669,288	650,057
Total deposits	918,296	893,361
Borrowings	396,222	441,203
Advance payments by borrowers for taxes	9,375	3,661
Other liabilities	20,259	32,574
Total liabilities	1,344,152	1,370,799
Shareholders' equity:		
Preferred stock (par value $.01 per share)		
Authorized - 50,000,000 shares in 2016 and in 2015, no shares issued	-	-
Common stock (par value $.01 per share)		
Authorized - 100,000,000 shares in 2016 and in 2015		
Issued - 29,147,729 in 2016 and 29,407,455 in 2015		
Outstanding - 29,147,729 in 2016 and 29,407,455 in 2015	292	294
Additional paid-in capital	317,552	317,022

Retained earnings	170,586	168,089
Unearned ESOP shares	(21,068)	(21,365)
Accumulated other comprehensive income, net of taxes	2,442	582
Cost of shares repurchased (5,895,932 shares in 2016 and 5,624,415 shares in 2015)	(76,378)	(72,692)
Total shareholders' equity	393,426	391,930
Total liabilities and shareholders' equity	$1,737,578	1,762,729

See Accompanying Notes to Unaudited Consolidated Financial Statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In Thousands, except per share amounts)	
Interest income:		
Loans	$13,784	13,313
Mortgage-related securities	838	839
Debt securities, federal funds sold and short-term investments	974	866
Total interest income	15,596	15,018
Interest expense:		
Deposits	1,719	1,353
Borrowings	3,894	4,229
Total interest expense	5,613	5,582
Net interest income	9,983	9,436
Provision for loan losses	205	335
Net interest income after provision for loan losses	9,778	9,101
Noninterest income:		
Service charges on loans and deposits	337	406
Increase in cash surrender value of life insurance	241	207
Mortgage banking income	20,614	21,039
Gain on sale of available for sale securities	-	44
Other	253	337
Total noninterest income	21,445	22,033
Noninterest expenses:		
Compensation, payroll taxes, and other employee benefits	17,686	18,078
Occupancy, office furniture, and equipment	2,336	2,443
Advertising	658	653
Data processing	643	575
Communications	342	370
Professional fees	523	497
Real estate owned	144	543
FDIC insurance premiums	205	336
Other	2,685	2,933
Total noninterest expenses	25,222	26,428
Income before income taxes	6,001	4,706
Income tax expense	2,140	1,690
Net income	$3,861	3,016
Income per share:		
Basic	$0.14	0.09
Diluted	$0.14	0.09
Weighted average shares outstanding:		
Basic	26,966	32,369
Diluted	27,279	32,650

See Accompanying Notes to Unaudited Consolidated Financial Statements.

WATERSONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In Thousands)	
Net income	$3,861	3,016
Other comprehensive income, net of tax:		
Net unrealized holding gain on available for sale securities:		
Net unrealized holding gain arising during the period, net of tax expense of $(1,200)and $(843) respectively	1,860	1,304
Reclassification adjustment for net gain included in net income during the period, net of tax expense of $0 and $17, respectively	-	(27)
Total other comprehensive income	1,860	1,277
Comprehensive income	$5,721	4,293

See Accompanying Notes to Unaudited Consolidated Financial Statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Cost of Shares Repurchased	Total Shareholders' Equity
Balances at December 31, 2014	34,420	$ 344	313,894	157,304	(22,552)	1,247	-	450,237
Comprehensive income:								
Net income	-	-	-	3,016	-	-	-	3,016
Other comprehensive income	-	-	-	-	-	1,277	-	1,277
Total comprehensive income								4,293
ESOP shares committed to be released to Plan participants	-	-	43	-	297	-	-	340
Cash dividend, $0.05 per share	-	-	-	(1,611)	-	-	-	(1,611)
Stock compensation activity, net of tax	557	6	30	-	-	-	-	36
Stock compensation expense	-	-	1,376	-	-	-	-	1,376
Purchase of common stock returned to authorized but unissued	(412)	(4)	-	-	-	-	(5,346)	(5,350)
Balances at March 31, 2015	34,565	$ 346	315,343	158,709	(22,255)	2,524	(5,346)	449,321
Balances at December 31, 2015	29,407	$ 294	317,022	168,089	(21,365)	582	(72,692)	391,930
Comprehensive income:								
Net income	-	-	-	3,861	-	-	-	3,861
Other comprehensive income	-	-	-	-	-	1,860	-	1,860
Total comprehensive income								5,721
ESOP shares committed to be released to Plan participants	-	-	65	-	297	-	-	362
	-	-	-	(1,364)	-	-	-	(1,364)

Cash dividend, $0.05 per share								
Stock based compensation activity	13	-	65	-	-	-	-	65
Stock compensation expense	-	-	400	-	-	-	-	400
Purchase of common stock returned to authorized but unissued	(272)	(2)	-	-	-	-	(3,686)	(3,688)
Balances at March 31, 2016	29,148	$ 292	317,552	170,586	(21,068)	2,442	(76,378)	393,426

See Accompanying Notes to Unaudited Consolidated Financial Statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In Thousands)	
Operating activities:		
Net income	$3,861	3,016
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	205	335
Provision for depreciation	702	798
Stock based compensation	400	1,376
Net amortization of premium/discount on debt and mortgage related securities	252	343
Amortization of unearned ESOP shares	362	340
Amortization and impairment of mortgage servicing rights	164	177
Gain on sale of loans held for sale	(20,196)	(19,868)
Loans originated for sale	(371,222)	(398,990)
Proceeds on sales of loans originated for sale	450,547	379,083
Increase in accrued interest receivable	(326)	(185)
Increase in cash surrender value of life insurance	(241)	(207)
Decrease in accrued interest on deposits and borrowings	(156)	(1)
Decrease in other liabilities	(51)	(1,706)
(Increase) decrease in accrued tax receivable	(887)	1,257
Gain on sale of available for sale securities	-	(44)
Net (gain) loss related to real estate owned	(19)	97
Gain on sale of mortgage servicing rights	-	(6)
Other	(6,957)	(2,677)
Net cash provided by (used in) operating activities	56,438	(36,862)
Investing activities:		
Net decrease in loans receivable	1,017	22,060
Purchases of:		
Mortgage related securities	(5,236)	(10,485)
Premises and equipment, net	(484)	(368)
Bank owned life insurance	(10,000)	-
Proceeds from:		
Principal repayments on mortgage-related securities	8,990	8,856
Maturities of debt securities	980	735
Sales of debt securities	-	1,034
Sales of real estate owned	1,964	6,243
Net cash (used in) provided by investing activities	(2,769)	28,075
Financing activities:		
Net increase (decrease) in deposits	24,935	(9,226)
Net change in short term borrowings	5,019	-
Repayment of long term debt	(50,000)	-
Net change in advance payments by borrowers for taxes	(6,381)	(5,579)
Cash dividends on common stock	(1,376)	(1,515)

Purchase of common stock returned to authorized but unissued	(3,688)	(5,350)
Proceeds from stock option exercises	65	30
Net cash used in financing activities	(31,426)	(21,640)
Increase (decrease) in cash and cash equivalents	22,243	(30,427)
Cash and cash equivalents at beginning of period	100,471	172,820
Cash and cash equivalents at end of period	$122,714	142,393
Supplemental information:		
Cash paid or credited during the period for:		
Income tax payments	2,505	457
Interest payments	5,769	5,583
Noncash activities:		
Loans receivable transferred to real estate owned	1,094	6,898
Dividends declared but not paid in other liabilities	1,525	1,611

See Accompanying Notes to Unaudited Consolidated Financial Statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of Waterstone Financial, Inc. (the "Company") and the Company's subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information, Rule 10-01 of Regulation S-X and the instructions to Form 10-Q. The financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company for the periods presented.

The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the Company's December 31, 2015 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other period.

The preparation of the unaudited consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the allowance for loan losses, deferred income taxes and real estate owned. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or shareholders' equity.

Note 2— Securities Available for Sale

The amortized cost and fair values of the Company's investment in securities available for sale follow:

	March 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$90,435	2,015	(32)	92,418
Collateralized mortgage obligations:				
Government sponsored enterprise issued	72,162	883	(18)	73,027
Mortgage-related securities	162,597	2,898	(50)	165,445
Government sponsored enterprise bonds	3,750	15	-	3,765
Municipal securities	77,423	2,426	(14)	79,835
Other debt securities	17,401	159	(600)	16,960
Debt securities	98,574	2,600	(614)	100,560
Certificates of deposit	1,715	14	(1)	1,728
	$262,886	5,512	(665)	267,733

	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$95,911	1,004	(248)	96,667
Collateralized mortgage obligations:				
Government sponsored enterprise issued	70,605	123	(300)	70,428
Mortgage-related securities	166,516	1,127	(548)	167,095
Government sponsored enterprise bonds	3,750	—	(4)	3,746
Municipal securities	77,509	1,730	(80)	79,159
Other debt securities	17,401	209	(647)	16,963
Debt securities	98,660	1,939	(731)	99,868
Certificates of deposit	2,695	4	(4)	2,695
	$267,871	3,070	(1,283)	269,658

The Company's mortgage-backed securities and collateralized mortgage obligations issued by government sponsored enterprises are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. At March 31, 2016, $94.3 million of the Company's mortgage related securities were pledged as collateral to secure repurchase agreement obligations of the Company. As of March 31, 2016, $2.3 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities. At December 31, 2015, $94.1 million of the Company's government sponsored enterprise bonds and $2.5 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities, respectively.

The amortized cost and fair values of investment securities by contractual maturity at March 31, 2016 are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Debt and other securities		
Due within one year	$13,610	13,679
Due after one year through five years	17,055	17,188
Due after five years through ten years	42,997	44,533
Due after ten years	26,627	26,888
Mortgage-related securities	162,597	165,445
	$262,886	267,733

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	March 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$2,911	(20)	823	(12)	3,734	(32)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	3,072	(18)	-	-	3,072	(18)
Municipal securities	7,217	(13)	301	(1)	7,518	(14)
Other debt securities	-	-	9,400	(600)	9,400	(600)
Certificates of Deposit	244	(1)	-	-	244	(1)
	$13,444	(52)	10,524	(613)	23,968	(665)

	December 31, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$18,488	(163)	5,577	(85)	24,065	(248)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	48,281	(300)	-	-	48,281	(300)
Government sponsored enterprise bonds	3,246	(4)	-	-	3,246	(4)
Municipal securities	9,409	(18)	5,555	(62)	14,964	(80)
Other debt securities	14,363	(647)	-	-	14,363	(647)
Certificates of deposit	976	(4)	-	-	976	(4)
	$94,763	(1,136)	11,132	(147)	105,895	(1,283)

The Company reviews the investment securities portfolio on a quarterly basis to monitor its exposure to other-than-temporary impairment. In evaluating whether a security's decline in market value is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, financial condition of the issuer and the underlying obligors, quality of credit enhancements, volatility of the fair value of the security, the expected recovery period of the security and ratings agency evaluations. In addition, the Company may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral.

As of March 31, 2016, the Company held two municipal securities that had previously been deemed to be other-than-temporarily impaired. Both securities were issued by a tax incremental district in a municipality located in Wisconsin. During the year ended December 31, 2012, the Company received audited financial statements with respect to the municipal issuer that called into question the ability of the underlying taxing district that issued the securities to operate as a going concern. During the year ended December 31, 2012, the Company's analysis of these securities resulted in $100,000 in credit losses charged to earnings with respect to these two municipal securities. An additional $17,000 credit loss was charged to earnings during the year ended December 31, 2014 for these municipal bonds. During the year ended December 31, 2014, there were sales in the market of municipal issuer bonds at a discounted price that resulted in the Company recording additional credit losses. As of March 31, 2016, these securities had a combined amortized cost of $198,000 and total life-to-date impairment of $117,000.

As of March 31, 2016, the Company had one municipal security, one mortgage-backed security, and one other debt security which had been in an unrealized loss position for twelve months or longer. These securities were determined not to be other-than-temporarily impaired as of March 31, 2016. The Company has determined that the decline in fair value of these securities is primarily attributable to an increase in market interest rates compared to the stated rates on these securities and is not attributable to credit deterioration. As the Company does not intend to sell nor is it more likely than not that it will be required to sell these securities before recovery of the amortized cost basis, these securities are not considered other-than-temporarily impaired.

Deterioration of general economic market conditions could result in the recognition of future other than temporary impairment losses within the investment portfolio and such amounts could be material to our consolidated financial statements.

There were no sales of securities during the three months ended March 31, 2016. During the three months ended March 31, 2015, proceeds from the sale of securities totaled $1.0 million and resulted in gains totaling $44,000. The $44,000 included in gain on sale of available for sale securities in the consolidated statements of income during the three months ended March 31, 2015 was reclassified from accumulated other comprehensive income.

Note 3 - Loans Receivable

Loans receivable at March 31, 2016 and December 31, 2015 are summarized as follows:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Mortgage loans:		
Residential real estate:		
One- to four-family	$377,514	381,992
Multi-family	542,163	547,250
Home equity	23,946	24,326
Construction and land	12,866	19,148
Commercial real estate	130,640	118,820
Consumer	338	361
Commercial loans	24,770	23,037
	$1,112,237	1,114,934

The Company provides several types of loans to its customers, including residential, construction, commercial and consumer loans. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to one borrower or to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. While credit risks are geographically concentrated in the

Company's Milwaukee metropolitan area, there are no concentrations with individual or groups of related borrowers.

Qualifying loans receivable totaling $886.5 million and $872.8 million at March 31, 2016 and December 31, 2015, respectively, are pledged as collateral against $300.0 million in outstanding Federal Home Loan Bank of Chicago (FHLBC) advances under a blanket security agreement.

As of March 31, 2016 and December 31, 2015, there were no loans 90 or more days past due and still accruing interest.

An analysis of past due loans receivable as of March 31, 2016 and December 31, 2015 follows:

	As of March 31, 2016					
	1-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or Greater	Total Past Due	Current (3)	Total Loans
	(In Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	$1,856	-	6,438	8,294	369,220	377,514
Multi-family	-	-	702	702	541,461	542,163
Home equity	98	58	110	266	23,680	23,946
Construction and land	-	-	227	227	12,639	12,866
Commercial real estate	-	-	213	213	130,427	130,640
Consumer	-	-	-	-	338	338
Commercial loans	26	3	-	29	24,741	24,770
Total	$1,980	61	7,690	9,731	1,102,506	1,112,237

	As of December 31, 2015					
	1-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or Greater	Total Past Due	Current (3)	Total Loans
	(In Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	$851	1,133	6,503	8,487	373,505	381,992
Multi-family	—	207	1,858	2,065	545,185	547,250
Home equity	255	96	110	461	23,865	24,326
Construction and land	-	-	238	238	18,910	19,148
Commercial real estate	57	-	223	280	118,540	118,820
Consumer	-	-	-	-	361	361
Commercial loans	-	-	—	—	23,037	23,037
Total	$1,163	1,436	8,932	11,531	1,103,403	1,114,934

(1) Includes $1.1 million and $315,000 at March 31, 2016 and December 31, 2015, respectively, which are on non-accrual status.

(2) Includes $60,000 and $467,000 at March 31, 2016 and December 31, 2015, respectively, which are on non-accrual status.

(3) Includes $6.5 million and $7.9 million at March 31, 2016 and December 31, 2015, respectively, which are on non-accrual status.

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A summary of the activity for the three months ended March 31, 2016 and 2015 in the allowance for loan losses follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Three months ended March 31, 2016								
Balance at beginning of period	$7,763	5,000	433	904	1,680	9	396	16,185
Provision (credit) for loan losses	298	98	74	(299)	(59)	1	92	205
Charge-offs	(205)	(432)	-	-	-	-	-	(637)
Recoveries	15	18	6	13	-	-	-	52
Balance at end of period	$7,871	4,684	513	618	1,621	10	488	15,805
Three months ended March 31, 2015								
Balance at beginning of period	$9,877	5,358	422	687	1,951	8	403	18,706
Provision (credit) for loan losses	330	121	17	(46)	(67)	(2)	(18)	335
Charge-offs	(769)	(1,243)	(48)	-	(43)	-	-	(2,103)
Recoveries	229	520	60	13	5	2	-	829
Balance at end of period	$9,667	4,756	451	654	1,846	8	385	17,767

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of March 31, 2016 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$1,144	-	208	-	98	-	3	1,453
Allowance related to loans collectively evaluated for impairment	6,727	4,684	305	618	1,523	10	485	14,352
Balance at end of period	$7,871	4,684	513	618	1,621	10	488	15,805
Loans individually evaluated for impairment	$16,481	4,313	528	1,784	1,684	-	25	24,815
Loans collectively evaluated for impairment	361,033	537,850	23,418	11,082	128,956	338	24,745	1,087,422
Total gross loans	$377,514	542,163	23,946	12,866	130,640	338	24,770	1,112,237

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of December 31, 2015 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$1,114	242	108	3	106	-	3	1,576
Allowance related to loans collectively evaluated for impairment	6,649	4,758	325	901	1,574	9	393	14,609
Balance at end of period	$7,763	5,000	433	904	1,680	9	396	16,185
Loans individually evaluated for impairment	$18,385	5,100	472	1,795	1,766	-	27	27,545
Loans collectively evaluated for impairment	363,607	542,150	23,854	17,353	117,054	361	23,010	1,087,389
Total gross loans	$381,992	547,250	24,326	19,148	118,820	361	23,037	1,114,934

The following table presents information relating to the Company's internal risk ratings of its loans receivable as of March 31, 2016 and December 31, 2015:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
At March 31, 2016								
Substandard	$17,065	1,775	564	1,784	1,684	-	51	22,923
Watch	10,619	3,557	98	—	542	-	1,313	16,129
Pass	349,830	536,831	23,284	11,082	128,414	338	23,406	1,073,185
	$377,514	542,163	23,946	12,866	130,640	338	24,770	1,112,237
At December 31, 2015								
Substandard	$19,148	2,553	684	1,794	1,766	-	55	26,000
Watch	11,352	3,634	128	-	1,161	-	402	16,677
Pass	351,492	541,063	23,514	17,354	115,893	361	22,580	1,072,257
	$381,992	547,250	24,326	19,148	118,820	361	23,037	1,114,934

Factors that are important to managing overall credit quality include sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early identification of potential problems, an allowance for loan losses, and sound non-accrual and charge-off policies. Our underwriting policies require an officers' loan committee review and approval of all loans in excess of $500,000. In addition, we utilize an independent loan review function for all loans. Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we maintain a loan review system under which our credit management personnel review non-owner occupied one- to four-family, multi-family, construction and land, commercial real estate and commercial loans that individually, or as part of an overall borrower relationship exceed $1.0 million in potential exposure. Loans meeting these criteria are reviewed on an annual basis, or more frequently, if the loan renewal is less than one year. With respect to this review process, management has determined that pass loans include loans that exhibit acceptable financial statements, cash flow and leverage. Watch loans have potential weaknesses that deserve management's attention, and if left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit. Substandard loans are considered inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. These loans generally have a well-defined weakness that may jeopardize liquidation of the debt and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Finally, a loan is considered to be impaired when it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management has determined that all non-accrual loans and loans modified under troubled debt restructurings meet the definition of an impaired loan.

The Company's procedures dictate that an updated valuation must be obtained with respect to underlying collateral at the time a loan is deemed impaired. Updated valuations may also be obtained upon transfer from loans receivable to real estate owned based upon the age of the prior appraisal, changes in market conditions or known changes to the physical condition of the property.

Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. The adjustment factor is based upon the Company's actual experience with respect to sales of real estate owned over the prior two years. In situations in which we are placing reliance on an appraisal that is more than one year old, an additional adjustment factor is applied to account for downward market pressure since the date of appraisal. The additional adjustment factor is based upon relevant sales data available for our general operating market as well as company-specific historical net realizable values as compared to the most recent appraisal prior to disposition.

With respect to multi-family income-producing real estate, appraisals are reviewed and estimated collateral values are adjusted by updating significant appraisal assumptions to reflect current real estate market conditions. Significant assumptions reviewed and updated include the capitalization rate, rental income and operating expenses. These adjusted assumptions are based upon recent appraisals received on similar properties as well as on actual experience related to real estate owned and currently under Company management.

The following tables present data on impaired loans at March 31, 2016 and December 31, 2015.

	As of or for the Three Months Ended March 31, 2016					
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Interest Paid
	(In Thousands)					
Total Impaired with Reserve						
One- to four-family	$7,236	8,175	1,144	939	7,262	68
Multi-family	-	-	-	-	-	-
Home equity	321	321	208	-	325	5
Construction and land	-	-	-	-	-	-
Commercial real estate	304	713	98	409	309	2
Consumer	-	-	-	-	-	-
Commercial	3	3	3	-	3	-
	7,864	9,212	1,453	1,348	7,899	75
Total Impaired with no Reserve						
One- to four-family	9,245	10,606	-	1,361	9,451	101
Multi-family	4,313	5,350	-	1,037	4,326	61
Home equity	207	207	-	-	207	1
Construction and land	1,784	1,897	-	113	1,787	14
Commercial real estate	1,380	1,380	-	-	1,458	16
Consumer	-	-	-	-	-	-
Commercial	22	22	-	-	23	-
	16,951	19,462	-	2,511	17,252	193
Total Impaired						
One- to four-family	16,481	18,781	1,144	2,300	16,713	169
Multi-family	4,313	5,350	-	1,037	4,326	61
Home equity	528	528	208	-	532	6
Construction and land	1,784	1,897	-	113	1,787	14
Commercial real estate	1,684	2,093	98	409	1,767	18
Consumer	-	-	-	-	-	-

Commercial	25	25	3	-	26	-
	$24,815	28,674	1,453	3,859	25,151	268

	As of or for the Year Ended December 31, 2015					
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Interest Paid
	(In Thousands)					
Total Impaired with Reserve						
One- to four-family	$7,903	8,923	1,114	1,020	8,113	393
Multi-family	1,055	1,055	242	-	1,044	42
Home equity	169	169	108	-	174	10
Construction and land	156	269	3	113	155	-
Commercial real estate	314	723	106	409	367	23
Consumer	-	-	-	-	-	-
Commercial	3	3	3	-	5	1
	9,600	11,142	1,576	1,542	9,858	469
Total Impaired with no Reserve						
One- to four-family	10,482	11,991	-	1,509	10,676	500
Multi-family	4,045	5,090	-	1,045	4,106	245
Home equity	303	303	-	-	307	13
Construction and land	1,639	1,639	-	-	1,827	62
Commercial real estate	1,452	1,452	-	-	1,458	72
Consumer	-	-	-	-	-	-
Commercial	24	24	-	-	29	2
	17,945	20,499	-	2,554	18,403	894
Total Impaired						
One- to four-family	18,385	20,914	1,114	2,529	18,789	893
Multi-family	5,100	6,145	242	1,045	5,150	287
Home equity	472	472	108	-	481	23
Construction and land	1,795	1,908	3	113	1,982	62
Commercial real estate	1,766	2,175	106	409	1,825	95
Consumer	-	-	-	-	-	-
Commercial	27	27	3	-	34	3
	$27,545	31,641	1,576	4,096	28,261	1,363

The difference between a loan's recorded investment and the unpaid principal balance represents a partial charge-off resulting from a confirmed loss when the value of the collateral securing the loan is below the loan balance and management's assessment that the full collection of the loan balance is not likely.

When a loan is considered impaired, interest payments received are treated as interest income on a cash basis as long as the remaining book value of the loan (i.e., after charge-off of all identified losses) is deemed to be fully collectible. If the remaining book value is not deemed to be fully collectible, all payments received are applied to unpaid principal. Determination as to the ultimate collectability of the remaining book value is supported by an updated credit department evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors.

The determination as to whether an allowance is required with respect to impaired loans is based upon an analysis of the value of the underlying collateral and/or the borrower's intent and ability to make all principal and interest payments in accordance with contractual terms. The evaluation process is subject to the use of significant estimates and actual results could differ from estimates. This analysis is primarily based upon third party appraisals and/or a discounted cash flow analysis. In those cases in which no allowance has been provided for an impaired loan, the Company has determined that the estimated value of the underlying collateral exceeds the remaining outstanding balance of the loan. Of the total $17.0 million of impaired loans as of March 31, 2016 for which no allowance has been provided, $2.5 million in charge-offs have been recorded to reduce the unpaid principal balance to an amount that is commensurate with the loans' net realizable value, using the estimated fair value of the underlying collateral. To the extent that further deterioration in property values continues, the Company may have to reevaluate the sufficiency of the collateral servicing these impaired loans resulting in additional provisions to the allowance for loans losses or charge-offs.

At March 31, 2016, total impaired loans included $15.0 million of troubled debt restructurings. Troubled debt restructurings involve granting concessions to a borrower experiencing financial difficulty by modifying the terms of the loan in an effort to avoid foreclosure. The vast majority of debt restructurings include a modification of terms to allow for an interest only payment and/or reduction in interest rate. The restructured terms are typically in place for six to twelve months. At December 31, 2015, total impaired loans included $17.5 million of troubled debt restructurings.

The following presents data on troubled debt restructurings:

	As of March 31, 2016					
	Accruing		Non-accruing		Total	
	Amount	Number	Amount	Number	Amount	Number
	(dollars in thousands)					
One- to four-family	$3,310	3	$4,738	38	$8,048	41
Multi-family	2,538	1	1,483	5	4,021	