TF FINANCIAL CORP
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2012

- or -

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

For the transition period from to

Commission file number: 0-24168

TF FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	74-2705050
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3 Penns Trail, Newtown, Pennsylvania	18940
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code: (215) 579-4000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES xNO o

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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 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: November 13, 2012

Class	Outstanding
$.10 par value common stock	2,838,493 shares

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The following Exhibits are being furnished as part of this report:

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART I-CONSOLIDATED FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	At	
	September 30, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 3,712	$ 14,928
Investment securities		
Available for sale	106,957	114,503
Held to maturity (fair value of $2,418 and $2,928 as of September 30, 2012 and December 31, 2011, respectively)	2,079	2,588
Loans receivable, net	533,978	494,125
Loans receivable, held for sale	860	488
Federal Home Loan Bank ("FHLB") stock—at cost	6,249	7,657
Accrued interest receivable	2,605	2,610
Premises and equipment, net	6,294	6,559
Goodwill	4,324	4,324
Bank owned life insurance	18,962	18,506
Other assets	11,036	15,641
TOTAL ASSETS	$ 697,056	$ 681,929
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Deposits	$ 533,273	$ 551,288
Advances from the FHLB	75,156	46,908
Advances from borrowers for taxes and insurance	1,817	2,322
Accrued interest payable	943	1,375
Other liabilities	3,902	2,628
Total liabilities	615,091	604,521
Stockholders’ equity		
Preferred stock, no par value; 2,000,000 shares authorized at September 30, 2012 and December 31, 2011, none issued	—	—
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,836,946 and 2,831,874 shares outstanding at September 30, 2012 and December 31, 2011, respectively, net of shares in treasury of 2,453,054 and 2,458,126, respectively.	529	529
Additional paid-in capital	54,293	54,118
Unearned ESOP shares	(1,004)	(1,097)
Treasury stock—at cost	(50,928)	(51,032)
Retained earnings	77,614	74,144
Accumulated other comprehensive income	1,461	746
Total stockholders’ equity	81,965	77,408

TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	697,056	$	681,929

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$6,436	$6,667	$18,864	$19,946
Investment securities				
Fully taxable	544	879	1,840	2,648
Exempt from federal taxes	415	362	1,280	1,080
Interest-bearing deposits and other	—	—	2	1
TOTAL INTEREST INCOME	7,395	7,908	21,986	23,675
Interest expense				
Deposits	803	1,430	2,795	4,328
Borrowings	338	473	1,094	1,537
TOTAL INTEREST EXPENSE	1,141	1,903	3,889	5,865
NET INTEREST INCOME	6,254	6,005	18,097	17,810
Provision for loan losses	750	528	1,750	2,878
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,504	5,477	16,347	14,932
Non-interest income				
Service fees, charges and other operating income	380	298	1,237	1,242
Bank owned life insurance	152	160	456	481
Gain on sale of investments	—	—	—	210
Gain on sale of loans	382	125	920	292
Gain on disposition of premises and equipment	—	—	277	—
TOTAL NON-INTEREST INCOME	914	583	2,890	2,225
Non-interest expense				
Compensation and benefits	2,651	2,584	8,222	7,952
Occupancy and equipment	686	699	2,068	2,253
Federal deposit insurance premiums	146	142	447	526
Professional fees	349	263	874	1,065
Marketing and advertising	76	88	267	257
Foreclosed real estate expense	78	317	705	497
Other operating	480	573	1,588	1,702
TOTAL NON-INTEREST EXPENSE	4,466	4,666	14,171	14,252
INCOME BEFORE INCOME TAXES	1,952	1,394	5,066	2,905
Income tax expense	479	314	1,189	508
NET INCOME	$1,473	$1,080	$3,877	$2,397
Earnings per share—basic	$0.54	$0.40	$1.42	$0.89
Earnings per share—diluted	$0.54	$0.40	$1.42	$0.89
Dividends paid per share	$0.05	$0.05	$0.15	$0.15
Weighted average shares outstanding:				
Basic	2,729	2,704	2,724	2,701

Diluted	2,732	2,705	2,727	2,702

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Net income	$1,473	$1,080	$3,877	$2,397
Other comprehensive income:				
Investment securities available for sale:				
Unrealized holding gains	544	1,524	870	2,884
Tax effect	(185)	(518)	(296)	(980)
Reclassification adjustment for gains realized in net income	—	—	—	(210)
Tax effect	—	—	—	71
Net of tax amount	359	1,006	574	1,765
Pension plan benefit adjustment:				
Related to actuarial losses and prior service cost	71	30	214	88
Tax effect	(24)	(11)	(73)	(30)
Net of tax amount	47	19	141	58
Total other comprehensive income	406	1,025	715	1,823
Comprehensive income	$1,879	$2,105	$4,592	$4,220

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30, 2012	2011
	(in thousands)	
OPERATING ACTIVITIES		
Net income	$3,877	$2,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment adjustment of mortgage loan servicing rights	304	296
Premiums and discounts on investment securities, net	181	87
Premiums and discounts on mortgage-backed securities, net	229	128
Deferred loan origination costs, net	132	122
Provision for loan losses	1,750	2,878
Depreciation of premises and equipment	573	647
Increase in value of bank owned life insurance	(456)	(481)
Stock based compensation	366	262
Proceeds from sale of loans originated for sale	39,656	15,748
Origination of loans held for sale	(39,512)	(17,156)
Loss on foreclosed real estate	425	254
Gain on :		
Sale of investments	—	(210)
Sale of loans held for sale	(920)	(292)
Disposition of premises and equipment	(277)	—
Decrease in:		
Accrued interest receivable	5	158
Other assets	644	900
(Decrease) increase in:		
Accrued interest payable	(432)	(477)
Other liabilities	944	533
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,489	5,794
INVESTING ACTIVITIES		
Loan originations	(110,383)	(76,036)
Loan principal payments	65,723	68,123
Proceeds from sale of foreclosed real estate	6,736	724
Proceeds from disposition of premises and equipment	356	—
Principal repayments on mortgage-backed securities held to maturity	506	482
Principal repayments on mortgage-backed securities available for sale	20,489	20,990
Proceeds from maturities and redemptions of investments available for sale	5,300	3,860
Proceeds from sale of investment securities available for sale	—	3,534
Purchase of investment securities available for sale	(4,260)	(4,112)
Purchase of mortgage-backed securities available for sale	(13,520)	(16,596)
Purchase of premises and equipment	(387)	(508)
Redemption of FHLB stock	1,408	1,341

Proceeds from sale of mortgage backed securities available for sale	—	1,518
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(28,032)	3,320

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2012	2011
	(in thousands)	
FINANCING ACTIVITIES		
Net (decrease)/increase in deposits	(18,015)	1,543
Net increase in short-term FHLB borrowings	14,304	10,884
Proceeds of long-term FHLB borrowings	32,197	6,573
Repayment of long-term FHLB borrowings	(18,253)	(19,944)
Net decrease in advances from borrowers for taxes and insurance	(505)	(733)
Exercise of stock options	7	—
Tax benefit arising from exercise of stock options	(1)	—
Common stock dividends paid	(407)	(399)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	9,327	(2,076)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(11,216)	7,038
Cash and cash equivalents at beginning of period	14,928	7,437
Cash and cash equivalents at end of period	$3,712	$14,475
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest on deposits and borrowings	$4,321	$6,342
Income taxes	$375	$300
Non-cash transactions:		
Capitalization of mortgage servicing rights	$404	$136
Transfers from loans to foreclosed real estate	$2,925	$2,405

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of September 30, 2012 (unaudited) and December 31, 2011 and for the three and nine-month periods ended September 30, 2012 and 2011 (unaudited) include the accounts of TF Financial Corporation (the “Company”) and its wholly owned subsidiaries: 3rd Fed Bank (the “Bank”), Penns Trail Development Corporation, and TF Investments Corporation, which was merged into the Company during 2011. The accompanying consolidated balance sheet at December 31, 2011, has been derived from the audited consolidated balance sheet but does not include all of the information and notes required by accounting principles generally accepted in the United States of America (“US GAAP”) for complete financial statements. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by US GAAP. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended September 30, 2012 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

NOTE 3—CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company’s consolidated financial position or results of operations.

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NOTE 4—EARNINGS PER SHARE

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except share and per share data):

	For the three months ended September 30, 2012		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$1,473	2,728,534	$0.54
Effect of dilutive securities			
Stock options and grants	—	3,119	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$1,473	2,731,653	$0.54

	For the nine months ended September 30, 2012		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$3,877	2,723,703	$1.42
Effect of dilutive securities			
Stock options and grants	—	3,668	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$3,877	2,727,371	$1.42

There were 65,337 options to purchase shares of common stock with exercise prices ranging from $23.53 to $32.51 per share which were outstanding during the three and nine months ended September 30, 2012 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

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	For the three months ended September 30, 2011		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$1,080	2,704,350	$0.40
Effect of dilutive securities			
Stock options and grants	—	818	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$1,080	2,705,168	$0.40

	For the nine months ended September 30, 2011		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$2,397	2,700,845	$0.89
Effect of dilutive securities			
Stock options and grants	—	716	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$2,397	2,701,561	$0.89

There were 64,407 options to purchase shares of common stock with exercise prices ranging from $24.12 to $32.51 per share which were outstanding during the three and nine months ended September 30, 2011 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

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NOTE 5—INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities are summarized as follows:

	At September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
State and political subdivisions	$53,060	$4,513	$—	$57,573
Residential mortgage-backed securities issued by quasi-governmental agencies	43,349	1,696	(1)	45,044
Residential mortgage-backed securities privately issued	4,149	191	—	4,340
Total investment securities available for sale	100,558	6,400	(1)	106,957
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	2,079	339	—	2,418
Total investment securities	$102,637	$6,739	$(1)	$109,375

	At December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
U.S. Government and federal agencies	$2,995	$35	$—	$3,030
State and political subdivisions	51,287	3,804	—	55,091
Residential mortgage-backed securities issued by quasi-governmental agencies	45,969	1,525	—	47,494
Residential mortgage-backed securities privately issued	8,723	195	(30)	8,888
Total investment securities available for sale	108,974	5,559	(30)	114,503
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	2,588	340	—	2,928
Total investment securities	$111,562	$5,899	$(30)	$117,431

There were no sales of investment securities during the three and nine months ended September 30, 2012. There were no sales of investment securities during the three months ended September 30, 2011. Gross realized gains were $210,000 for the nine months ended September 30, 2011. These gains resulted from proceeds from the sale of investment and mortgage-backed securities of $5.1 million.

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The amortized cost and fair value of investment and mortgage-backed securities, by contractual maturity, are shown below.

	At September 30, 2012			
	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Investment securities				
Due in one year or less	$1,070	$1,084	$—	$—
Due after one year through five years	7,732	8,139	—	—
Due after five years through ten years	24,136	25,880	—	—
Due after ten years	20,122	22,470	—	—
	53,060	57,573	—	—
Mortgage-backed securities	47,498	49,384	2,079	2,418
Total investment and mortgage-backed securities	$100,558	$106,957	$2,079	$2,418

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at September 30, 2012:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
	(dollars in thousands)						
Residential mortgage- backed securities issued by quasi- governmental agencies	1	$263	$(1)	$—	$—	$263	$(1)
Total temporarily impaired securities	1	$263	$(1)	$—	$—	$263	$(1)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2011:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
	(dollars in thousands)						
Residential mortgage-	2	$3,442	$(30)	$—	$—	$3,442	$(30)

backed securities privately issued							
Total temporarily impaired securities	2	$3,442	$(30)	$—	$—	$3,442	$(30)

On a quarterly basis, temporarily impaired securities are evaluated to determine whether such impairment is an other-than-temporary impairment ("OTTI"). The Company has performed this evaluation and has determined that the unrealized losses at September 30, 2012 and December 31, 2011, respectively, are not considered other-than-temporary but are the result of changes in interest rates, and are therefore reflected in other comprehensive income.

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NOTE 6—LOANS RECEIVABLE

Loans receivable are summarized as follows:

	At	
	September 30, 2012	December 31, 2011
	(in thousands)	
Held for investment:		
Residential		
Residential mortgages	$ 320,883	$ 277,824
Commercial		
Real estate-commercial	109,379	110,743
Real estate-residential	22,502	25,801
Real estate-multi-family	19,433	19,906
Construction loans	19,094	16,336
Commercial and industrial loans	4,316	4,414
Total commercial loans	174,724	177,200
Consumer		
Home equity and second mortgage	41,751	44,165
Other consumer	1,925	1,971
Total consumer loans	43,676	46,136
Total loans	539,283	501,160
Net deferred loan origination costs and unamortized premiums	1,467	1,065
Less allowance for loan losses	(6,772)	(8,100)
Total loans receivable	$ 533,978	$ 494,125
Held for sale:		
Residential		
Residential mortgages	$ 860	$ 488

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The following table presents the composition of the commercial loan portfolio by credit quality indicators:

Commercial credit exposure-credit risk profile by internally assigned grade

	At September 30, 2012				
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	$96,008	$4,221	$9,150	$—	$109,379
Real estate-residential	19,419	1,023	2,060	—	22,502
Real estate-multi-family	13,526	2,532	3,375	—	19,433
Construction loans	7,360	5,398	6,336	—	19,094
Commercial and industrial loans	4,233	83	—	—	4,316
Total	$140,546	$13,257	$20,921	$—	$174,724

	At December 31, 2011				
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	$95,719	$6,189	$8,835	$—	$110,743
Real estate-residential	21,447	2,891	1,463	—	25,801
Real estate-multi-family	12,753	3,768	3,385	—	19,906
Construction loans	4,452	4,312	7,572	—	16,336
Commercial and industrial loans	4,139	100	175	—	4,414
Total	$138,510	$17,260	$21,430	$—	$177,200

In order to assess and monitor the credit risk associated with commercial loans, the Company employs a risk rating methodology whereby each commercial loan is initially assigned a risk grade. At least annually, all risk ratings are reviewed in light of information received such as tax returns, rent rolls, cash flow statements, appraisals, and any other information which may affect the then current risk rating, which is adjusted upward or downward as needed. At the end of each quarter the risk ratings are summarized and become a component of the evaluation of the allowance for loan losses. The Company's risk rating definitions mirror those promulgated by banking regulators and are as follows:

Pass: A good quality loan is characterized by satisfactory liquidity; reasonable debt capacity and coverage; acceptable management in all critical positions and normal operating results for its peer group. The Company has grades 1 through 6 within the Pass category which reflect the increasing amount of attention paid to the individual loan because of, among other things, trends in debt service coverage, management weaknesses, or collateral values.

Special mention: A loan that has potential weaknesses that deserves management's close attention. Although the loan is currently protected, if left uncorrected, potential weaknesses may result in the deterioration of the loan's repayment prospects or in the borrower's future credit position. Potential weaknesses include: weakening financial condition; an unrealistic repayment program; inadequate sources of funds; lack of adequate collateral; credit information; or documentation. There is currently the capacity to meet interest and principal payments, but further adverse business, financial, or economic conditions may impair the borrower's capacity or willingness to pay interest and repay principal.

Substandard: A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Although no loss of principal or interest is presently apparent, there is the distinct possibility

that a partial loss of interest and/or principal will be sustained if the deficiencies are not corrected. There is a current identifiable vulnerability to default
and the dependence upon favorable business, financial, or economic conditions to meet timely payment of interest and repayment of principal.

Doubtful: A loan which has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable

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and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to strengthen the asset, classification as an estimated loss is deferred until a more exact status is determined. Pending factors include: proposed merger, acquisition, liquidation, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss: Loans which are considered uncollectible and have been charged off. The Company has charged-off all loans classified as loss.

Loans classified as special mention, substandard or doubtful are evaluated for potential impairment. All impaired loans are placed on non-accrual status and are classified as substandard or doubtful.

The following table presents the composition of the residential mortgage and consumer loan portfolios by credit quality indicators:

Mortgage and consumer credit exposure-credit risk profile by payment activity

	At September 30, 2012		
	Performing	Non-performing (in thousands)	Total
Residential mortgages	$318,761	$ 2,122	$320,883
Home equity and second mortgage	41,547	204	41,751
Other consumer	1,925	—	1,925
Total	$362,233	$ 2,326	$364,559

	At December 31, 2011		
	Performing	Non-performing (in thousands)	Total
Residential mortgages	$272,322	$ 5,502	$277,824
Home equity and second mortgage	43,888	277	44,165
Other consumer	1,970	1	1,971
Total	$318,180	$ 5,780	$323,960

In order to assess and monitor the credit risk associated with residential mortgage loans and consumer loans which include second mortgage loans and home equity secured lines of credit, the Company relies upon the payment status of the loan. Residential mortgage and other consumer loans 90 days or more past due are placed on non-accrual status and evaluated for impairment.

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The following table presents by class non-performing loans including impaired loans and loan balances 90 days or more past due for which the accrual of interest has been discontinued:

	At	
	September 30, 2012	December 31, 2011
	(in thousands)	
Residential		
Residential mortgages	$ 2,122	$ 5,502
Commercial		
Real estate-commercial	1,116	2,711
Real estate-residential	839	—
Construction loans	6,119	4,044
Commercial and industrial loans	—	6
Consumer		
Home equity and second mortgage	204	277
Other consumer	—	1
Total non-performing loans	$ 10,400	$ 12,541
Total loans past due 90 days as to interest or principal and accruing interest	$ —	$ —

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The following tables present loans individually evaluated for impairment by class:

	At September 30, 2012				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	$2,236	$2,331	$295	$2,042	$—
Commercial					
Real estate-commercial	565	1,497	185	734	—
Real estate-residential	719	838	57	360	—
Construction loans	3,118	3,815	329	3,321	—
Commercial and industrial loans	—	—	—	3	—
	6,638	8,481	866	6,460	—
With no allowance recorded:					
Residential					
Residential mortgages	—	—	—	1,030	—
Commercial					
Real estate-commercial	551	551	—	1,089	—
Real estate-residential	120	121	—	337	—
Construction loans	3,001	3,258	—	2,399	—
	3,672	3,930	—	4,855	—
Total	$10,310	$12,411	$866	$11,315	$—

	At December 31, 2011				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	$1,252	$1,252	$388	$751	$—
Commercial					
Real estate-commercial	1,497	1,497	877	3,581	—
Real estate-residential	—	—	—	497	—
Construction loans	3,816	3,816	1,035	4,143	—
Commercial and industrial loans	6	6	3	72	—
	6,571				