Waterstone Financial, Inc.
Form 10-Q
October 30, 2018
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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer T 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 T

The number of shares outstanding of the issuer's common stock, $0.01 par value per share, was 28,829,339 at October 29, 2018.

WATERSTONE FINANCIAL, INC.

10-Q INDEX

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

	(Unaudited) September 30, 2018	December 31, 2017
	(Dollars In Thousands, except share and per share data)	
Assets		
Cash	$32,966	$22,306
Federal funds sold	18,352	17,034
Interest-earning deposits in other financial institutions and other short term investments	7,538	9,267
Cash and cash equivalents	58,856	48,607
Securities available for sale (at fair value)	179,076	199,707
Loans held for sale (at fair value)	192,674	149,896
Loans receivable	1,357,656	1,291,814
Less: Allowance for loan losses	13,226	14,077
Loans receivable, net	1,344,430	1,277,737
Office properties and equipment, net	22,417	22,941
Federal Home Loan Bank stock (at cost)	19,575	16,875
Cash surrender value of life insurance	67,198	65,996
Real estate owned, net	2,170	4,558
Prepaid expenses and other assets	33,007	20,084
Total assets	$1,919,403	$1,806,401
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits	$130,969	$129,597
Money market and savings deposits	159,742	148,804
Time deposits	713,739	688,979
Total deposits	1,004,450	967,380
Borrowings	451,132	386,285
Advance payments by borrowers for taxes	30,460	4,876
Other liabilities	28,717	35,756
Total liabilities	1,514,759	1,394,297
Shareholders' equity:		
Preferred stock (par value $.01 per share)		
Authorized - 50,000,000 shares in 2018 and in 2017, no shares issued	-	-
Common stock (par value $.01 per share)		
Authorized - 100,000,000 shares in 2018 and in 2017		
Issued - 29,049,939 in 2018 and 29,501,346 in 2017		
Outstanding - 29,049,939 in 2018 and 29,501,346 in 2017	291	295
Additional paid-in capital	329,743	326,655
Retained earnings	184,697	183,358
Unearned ESOP shares	(18,101)	(18,991)
Accumulated other comprehensive loss, net of taxes	(3,808)	(477)
Cost of shares repurchased (6,583,837 shares at September 30, 2018 and 6,030,900 shares at December 31, 2017)	(88,178)	(78,736)

Total shareholders' equity	404,644	412,104
Total liabilities and shareholders' equity	$1,919,403	$1,806,401

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands, except per share amounts)			
Interest income:				
Loans	$17,340	$15,855	$49,498	$45,078
Mortgage-related securities	643	647	1,925	2,021
Debt securities, federal funds sold and short-term investments	1,063	951	2,949	2,680
Total interest income	19,046	17,453	54,372	49,779
Interest expense:				
Deposits	3,063	1,981	8,087	5,614
Borrowings	2,133	2,439	5,574	6,756
Total interest expense	5,196	4,420	13,661	12,370
Net interest income	13,850	13,033	40,711	37,409
Provision for loan losses	40	20	(1,060)	(1,166)
Net interest income after provision for loan losses	13,810	13,013	41,771	38,575
Noninterest income:				
Service charges on loans and deposits	442	300	1,332	1,148
Increase in cash surrender value of life insurance	695	688	1,496	1,476
Loss on sale of securities	-	-	-	(107)
Mortgage banking income	32,653	31,863	88,930	92,774
Other	272	203	805	941
Total noninterest income	34,062	33,054	92,563	96,232
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	27,453	26,153	74,670	73,732
Occupancy, office furniture, and equipment	2,751	2,533	7,995	7,587
Advertising	1,224	821	3,084	2,414
Data processing	809	623	2,057	1,854
Communications	412	394	1,229	1,170
Professional fees	583	629	1,930	1,953
Real estate owned	(128)	(20)	63	258
FDIC insurance premiums	131	129	361	366
Other	3,191	3,054	9,921	10,227
Total noninterest expenses	36,426	34,316	101,310	99,561
Income before income taxes	11,446	11,751	33,024	35,246
Income tax expense	2,743	4,362	7,948	12,397
Net income	$8,703	$7,389	$25,076	$22,849
Income per share:				
Basic	$0.32	$0.27	$0.91	$0.83
Diluted	$0.31	$0.26	$0.90	$0.82
Weighted average shares outstanding:				
Basic	27,451	27,532	27,488	27,449
Diluted	27,680	27,953	27,765	27,927

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Net income	$8,703	$7,389	$25,076	$22,849
Other comprehensive (loss) income, net of tax:				
Net unrealized holding (loss) gain on available for sale securities:				
Net unrealized holding (loss) gain arising during the period, net of tax benefit (expense) of $240, ($59), $1,254, ($416), respectively	(641)	91	(3,336)	641
Reclassification adjustment for net loss included in net income during the period, net of tax benefit of $0, $0, $0, ($42) respectively	-	-	-	65
Reclassification adjustment for net deferred tax liability revaluation	-	-	5	-
Total other comprehensive (loss) income	(641)	91	(3,331)	706
Comprehensive income	$8,062	$7,480	$21,745	$23,555

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Cost of Shares Repurchased	Total Shareholders' Equity
	(Dollars In Thousands, except per share amounts)							
Balances at December 31, 2016	29,430	$ 294	$ 322,934	$ 184,565	$ (20,178)	$ (378)	$ (76,547)	$ 410,690
Comprehensive income:								
Net income	-	-	-	22,849	-	-	-	22,849
Other comprehensive income	-	-	-	-	-	706	-	706
Total comprehensive income								23,555
ESOP shares committed to be released to Plan participants	-	-	572	-	890	-	-	1,462
Cash dividend, $0.86 per share	-	-	-	(23,836)	-	-	-	(23,836)
Stock compensation activity, net of tax	176	2	820	-	-	-	-	822
Stock compensation expense	-	-	1,427	-	-	-	-	1,427
Purchase of common stock returned to authorized but unissued	(123)	(1)	-	-	-	-	(2,189)	(2,190)
Balances at September 30, 2017	29,483	$ 295	$ 325,753	$ 183,578	$ (19,288)	$ 328	$ (78,736)	$ 411,930
Balances at December 31, 2017	29,501	$ 295	$ 326,655	$ 183,358	$ (18,991)	$ (477)	$ (78,736)	$ 412,104
Comprehensive income:								
Net income	-	-	-	25,076	-	-	-	25,076
Other comprehensive loss	-	-	-	-	-	(3,331)	-	(3,331)
Total comprehensive income								21,745
Reclassification for net deferred tax liability revaluation	-	-	-	(5)	-	-	-	(5)

ESOP shares committed to be released to Plan participants	-	-	472	-	890	-	-	1,362
Cash dividend, $0.86 per share	-	-	-	(23,732)	-	-	-	(23,732)
Stock based compensation activity	102	1	1,289	-	-	-	-	1,290
Stock compensation expense	-	-	1,327	-	-	-	-	1,327
Purchase of common stock returned to authorized but unissued	(553)	(5)	-	-	-	-	(9,442)	(9,447)
Balances at September 30, 2018	29,050	$ 291	$ 329,743	$ 184,697	$ (18,101)	$ (3,808)	$ (88,178)	$ 404,644

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2018	2017
	(In Thousands)	
Operating activities:		
Net income	$25,076	$22,849
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	(1,060)	(1,166)
Provision for depreciation	1,704	1,549
Stock based compensation	1,327	1,427
Net amortization of premium/discount on debt and mortgage related securities	373	524
Amortization of unearned ESOP shares	1,362	1,462
Amortization and impairment of mortgage servicing rights	146	71
Gain on sale of loans held for sale	(85,366)	(94,219)
Loans originated for sale	(1,927,627)	(1,881,351)
Proceeds on sales of loans originated for sale	1,970,215	2,025,682
Increase in accrued interest receivable	(457)	(294)
Increase in cash surrender value of life insurance	(1,496)	(1,476)
Increase in accrued interest on deposits and borrowings	268	2
Increase in other liabilities	3,108	336
Increase in prepaid tax expense	(266)	(2,088)
Loss on sale of securities	-	107
Net gain related to real estate owned	(211)	(11)
Gain on sale of mortgage servicing rights	-	(308)
Other	(10,840)	440
Net cash (used in) provided by operating activities	(23,744)	73,536
Investing activities:		
Net increase in loans receivable	(66,178)	(85,685)
Net change in FHLB stock	(2,700)	(5,175)
Purchases of:		
Debt securities	-	(6,140)
Mortgage related securities	(13,179)	(6,940)
Premises and equipment, net	(1,257)	(939)
Bank owned life insurance	(180)	(2,680)
Mortgage banking branch	(163)	-
Proceeds from:		
Principal repayments on mortgage-related securities	22,216	25,177
Maturities of debt securities	8,590	13,941
Sales of debt securities	-	448
Sales of real estate owned	3,128	3,104
Bank owned life insurance	474	-
Net cash used in investing activities	(49,249)	(64,889)
Financing activities:		
Net increase in deposits	37,070	7,362

Net change in short term borrowings	(25,153)	(7,652)
Repayment of long term debt	(165,000)	(69,000)
Proceeds from long term debt	255,000	125,000
Net change in advance payments by borrowers for taxes	13,268	6,021
Cash dividends on common stock	(23,786)	(23,636)
Purchase of common stock returned to authorized but unissued	(9,447)	(2,190)
Proceeds from stock option exercises	1,290	822
Net cash provided by financing activities	83,242	36,727
Increase in cash and cash equivalents	10,249	45,374
Cash and cash equivalents at beginning of period	48,607	47,217
Cash and cash equivalents at end of period	$58,856	$92,591
Supplemental information:		
Cash paid or credited during the period for:		
Income tax payments	$7,763	$14,141
Interest payments	13,393	12,368
Noncash activities:		
Loans receivable transferred to real estate owned	545	1,609
Dividends declared but not paid in other liabilities	3,458	3,877

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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.

WaterStone Bank SSB (the "Bank") is a community bank that has served the banking needs of its customers since 1921. WaterStone Bank also has an active mortgage banking subsidiary, Waterstone Mortgage Corporation.

WaterStone Bank conducts its community banking business from 11 banking offices located in Milwaukee, Washington and Waukesha Counties, Wisconsin, as well as a loan production office in Minneapolis, Minnesota. WaterStone Bank's principal lending activity is originating one- to four-family, multi-family residential real estate, and commercial real estate loans for retention in its portfolio. WaterStone Bank also offers home equity loans and lines of credit, construction and land loans, and commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. Our deposit offerings include: certificates of deposit, money market savings accounts, transaction deposit accounts, non-interest bearing demand accounts and individual retirement accounts. Our investment securities portfolio is comprised principally of mortgage-backed securities, government-sponsored enterprise bonds and municipal obligations.

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates single-family residential real estate loans for sale into the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes a line of credit with another financial institution as needed.

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, 2017 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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.

Impact of Recent Accounting Pronouncements

Accounting Standards Codification ("ASC") Topic 606 "Revenue from Contracts with Customers." Authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" amended prior guidance to require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and to provide clarification on identifying performance obligations and licensing implementation guidance. The Company's revenue is comprised of interest and non-interest revenue. The guidance does not apply to revenue associated with financial instruments, including loans and securities. The Company completed its overall assessment of revenue streams and related contracts affected by the guidance, including asset management fees, deposit related fees, and other non-interest related fees. The Company adopted ASC 606 as of January 1, 2018 with no impact on total shareholders' equity or net income.

Revenue Recognition

The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASC 606. The following is a discussion of revenues within the scope of the new revenue guidance:

Debit and credit card interchange fee income - Card processing fees consist of interchange fees from consumer debit and credit card networks and other card related services. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.
Service charges on deposit accounts - Revenue from service charges on deposit accounts is earned through deposit-related services; as well as overdraft, non-sufficient funds, account management and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.
Service charges on loan accounts - Revenue from loan accounts consists primarily of fees earned on prepayment penalties. Revenue is recognized for these services at a point in time for transactional related services and fees.

ASC Topic 825 "Financial Instruments." Authoritative accounting guidance under ASC Topic 825, "Financial Instruments" amended prior guidance to require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected the fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The Company adopted ASC 825 as of January 1, 2018 with no material impact on the Company's statements of operations or financial condition.

ASC Topic 842 "Leases." Authoritative accounting guidance under ASC Topic 842, "Leases" amended prior guidance to require lessees to recognize the assets and liabilities arising from all leases on the balance sheet. The authoritative guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. In addition, the qualifications for a sale and leaseback transaction have been amended. The new authoritative guidance also requires qualitative and quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The authoritative guidance will be effective for reporting periods after January 1, 2019. The Company is evaluating the guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 326 "Financial Instruments - Credit Losses." Authoritative accounting guidance under ASC Topic 326, "Financial Instruments - Credit Losses" amended the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The authoritative guidance also requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses). In addition, the credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. The authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is evaluating the guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 310 "Receivables - Nonrefundable Fees and Other Costs." Authoritative accounting guidance under ASC Topic 310, "Receivables - Nonrefundable Fees and Other Costs" amends prior guidance by shortening the amortization period for certain callable debt securities held at a premium requiring the premium to be amortized to the earliest call date. The new authoritative guidance will be effective for reporting periods after January 1, 2019 with early adoption permitted. The Company is evaluating the guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 220 "Income Statement - Reporting Comprehensive Income." Authoritative accounting guidance under ASC Topic 220, "Income Statement - Reporting Comprehensive Income" allows Companies to make a one-time reclassification from accumulated other comprehensive income (loss) to retained earnings for the effects of remeasuring deferred income taxes originally recorded in other comprehensive income as a result of the change in the federal income tax rate by the Tax Cuts and Jobs Act. The Company adopted this guidance as of January 1, 2018 with no impact on total shareholders' equity or net income.

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Note 2— Securities Available for Sale

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

	September 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$45,384	$ 94	$ (1,112)	$44,366
Collateralized mortgage obligations:				
Government sponsored enterprise issued	66,072	-	(2,248)	63,824
Mortgage-related securities	111,456	94	(3,360)	108,190
Government sponsored enterprise bonds	500	-	(1)	499
Municipal securities	56,415	526	(291)	56,650
Other debt securities	15,003	-	(1,511)	13,492
Debt securities	71,918	526	(1,803)	70,641
Certificates of deposit	245	-	-	245
	$183,619	$ 620	$ (5,163)	$179,076

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$57,351	$ 324	$ (240)	$57,435
Collateralized mortgage obligations:				
Government sponsored enterprise issued	61,313	3	(816)	60,500
Mortgage-related securities	118,664	327	(1,056)	117,935
Government sponsored enterprise bonds	2,500	-	(3)	2,497
Municipal securities	62,516	1,334	(81)	63,769
Other debt securities	15,005	12	(492)	14,525
Debt securities	80,021	1,346	(576)	80,791
Certificates of deposit	980	1	-	981
	$199,665	$ 1,674	$ (1,632)	$199,707

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 September 30, 2018, $1.9 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities. At December 31, 2017, $2.5 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities.

The amortized cost and fair values of investment securities by contractual maturity at September 30, 2018 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	Fair

	Cost	Value
	(In Thousands)	
Debt and other securities		
Due within one year	$2,750	$2,746
Due after one year through five years	26,710	26,503
Due after five years through ten years	31,038	31,405
Due after ten years	11,665	10,232
Mortgage-related securities	111,456	108,190
	$183,619	$179,076

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:

	September 30, 2018					
	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	$24,121	$ (530)	$17,479	$ (582)	$41,600	$ (1,112)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	30,376	(779)	31,427	(1,469)	61,803	(2,248)
Government sponsored enterprise bonds	-	-	499	(1)	499	(1)
Municipal securities	27,459	(253)	2,117	(38)	29,576	(291)
Other debt securities	4,980	(23)	8,512	(1,488)	13,492	(1,511)
	$86,936	$ (1,585)	$60,034	$ (3,578)	$146,970	$ (5,163)

	December 31, 2017					
	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	$35,136	$ (143)	$4,464	$ (97)	$39,600	$ (240)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	37,949	(348)	21,651	(468)	59,600	(816)
Government sponsored enterprise bonds	2,497	(3)	-	-	2,497	(3)
Municipal securities	17,096	(80)	100	(1)	17,196	(81)
Other debt securities	-	-	9,508	(492)	9,508	(492)
	$92,678	$ (574)	$35,723	$ (1,058)	$128,401	$ (1,632)

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, the 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.

The following table presents the change in other-than-temporary credit related impairment charges on securities available for sale for which a portion of the other-than-temporary impairments related to other factors was recognized in other comprehensive loss.

	(In Thousands)
Credit-related impairments on securities as of December 31, 2016	$ 94
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized	-
Credit-related impairments on securities as of December 31, 2017	94
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized	-

Credit-related impairments on securities as of September 30, 2018	$	94

As of September 30, 2018, the Company held one municipal security that had previously been deemed to be other-than-temporarily impaired. The security was 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 security to operate as a going concern. During the year ended December 31, 2012, the Company's analysis of this security resulted in $77,000 in credit losses charged to earnings with respect to this municipal security. An additional $17,000 credit loss was charged to earnings during the year ended December 31, 2014 with respect to this security as a sale occurred at a discounted price. As of September 30, 2018, this security had an amortized cost of $116,000 and total life-to-date impairment of $94,000.

As of September 30, 2018, the Company had 22 mortgage-backed securities, 26 government sponsored enterprise issued securities, six municipal bond securities, and one corporate debt security which had been in an unrealized loss position for twelve months or longer and represents a loss of 5.6% of the aggregate amortized cost. These securities were determined not to be other-than-temporarily impaired as of September 30, 2018. 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.

The unrealized losses for the other debt security with an unrealized loss greater than 12 months is due to the current slope of the yield curve. The security currently earns a fixed interest rate but transitions in the future to a floating rate that is indexed to the 10 year Treasury interest rate. The Company does not intend to sell nor does it believe that it will be required to sell the security before recovery of their amortized cost basis.

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.

During the nine months ended September 30, 2018, there were no sales of securities. During the nine months ended September 30, 2017, proceeds from the sale of securities totaled $448,000 and resulted in losses totaling $107,000. The $107,000 included in loss on sale of available for sale securities in the consolidated statements of income during the nine months ended September 30, 2017 was reclassified, net of tax, from accumulated other comprehensive income.

Note 3 - Loans Receivable

Loans receivable at September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018	December 31, 2017
	(In Thousands)	
Mortgage loans:		
Residential real estate:		
One- to four-family	$485,449	$439,597
Multi-family	586,563	578,440
Home equity	20,417	21,124
Construction and land	8,947	19,859
Commercial real estate	222,742	195,842
Consumer	400	255
Commercial loans	33,138	36,697
	$1,357,656	$1,291,814

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 the Company's credit risks are geographically concentrated in the Milwaukee metropolitan area, there are no concentrations with individual or groups of related borrowers.

Qualifying loans receivable totaling $1.01 billion and $971.3 million at September 30, 2018 and December 31, 2017, respectively, are pledged as collateral against $435.0 million and $375.0 million in outstanding Federal Home Loan Bank of Chicago ("FHLBC") advances under a blanket security agreement at September 30, 2018 and December 31, 2017.

Certain of the Company's executive officers, directors, employees, and their related interests have loans with the Bank. As of September 30, 2018 and December 31, 2017, loans aggregating approximately $3.2 million and $4.5 million, respectively, were outstanding to such parties. None of these loans were considered impaired as of September 30, 2018 or December 31, 2017.

As of September 30, 2018 and December 31, 2017, there were no loans 90 or more days past due and still accruing interest.

An analysis of past due loans receivable as of September 30, 2018 and December 31, 2017 follows:

	As of September 30, 2018					
	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	$3,792	$ 27	$3,720	$7,539	$477,910	$485,449
Multi-family	355	-	593	948	585,615	586,563
Home equity	263	-	111	374	20,043	20,417
Construction and land	-	-	-	-	8,947	8,947

Commercial real estate	-	-	172	172	222,570	222,742
Consumer	34	-	-	34	366	400
Commercial loans	-	-	26	26	33,112	33,138
Total	$4,444	$ 27	$4,622	$9,093	$1,348,563	$1,357,656

	As of December 31, 2017					
	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	$1,494	$146	$3,516	$5,156	$434,441	$439,597
Multi-family	-	128	192	320	578,120	578,440
Home equity	68	-	56	124	21,000	21,124
Construction and land	-	-	-	-	19,859	19,859
Commercial real estate	-	-	184	184	195,658	195,842
Consumer	-	-	-	-	255	255
Commercial loans	-	42	26	68	36,629	36,697
Total	$1,562	$316	$3,974	$5,852	$1,285,962	$1,291,814

(1) Includes $442,000 and $241,000 at September 30, 2018 and December 31, 2017, respectively, which are on non-accrual status.

(2) Includes $- and $15,000 at September 30, 2018 and December 31, 2017, respectively, which are on non-accrual status.

(3) Includes $1.5 million and $1.8 million at September 30, 2018 and December 31, 2017, respectively, which are on non-accrual status.

A summary of the activity for the nine months ended September 30, 2018 and 2017 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)							
Nine months ended September 30, 2018								
Balance at beginning of period	$5,794	$ 4,431	$ 356	$ 949	$ 1,881	$ 10	$ 656	$14,077
Provision (credit) for loan losses	205	(491)	(57)	(702)	133	4	(152)	(1,060)
Charge-offs	(68)	(13)	(1)	-	-	-	-	(82)
Recoveries	150	82	18	40	1	-	-	291
Balance at end of period	$6,081	$ 4,009	$ 316	$ 287	$ 2,015	$ 14	$ 504	$13,226

Nine months ended September 30, 2017								
Balance at beginning of period	$7,164	$4,809	$364	$1,016	$1,951	$12	$713	$16,029
Provision (credit) for loan losses	(249)	(396)	8	(283)	(170)	(2)	(74)	(1,166)
Charge-offs	(1,092)	(92)	-	(14)	(6)	-	-	(1,204)
Recoveries	200	102	21	80	1	-	-	404
Balance at end of period	$6,023	$4,423	$393	$799	$1,776	$10	$639	$14,063

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of September 30, 2018 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	$51	$-	$32	$ -	$ 21	$ -	$ -	$104
Allowance related to loans collectively evaluated for impairment	6,030	4,009	284	287	1,994	14	504	13,122
Balance at end of period	$6,081	$4,009	$316	$ 287	$ 2,015	$ 14	$ 504	$13,226
Loans individually evaluated for impairment	$7,903	$981	$217	$ -	$ 457	$ -	$ 26	$9,584
Loans collectively evaluated for impairment	477,546	585,582	20,200	8,947	222,285	400	33,112	1,348,072
Total gross loans	$485,449	$586,563	$20,417	$ 8,947	$ 222,742	$ 400	$ 33,138	$1,357,656

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of December 31, 2017 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	$77	$-	$44	$ -	$ 34	$ -	$ -	$155
Allowance related to loans collectively evaluated for impairment	5,717	4,431	312	949	1,847	10	656	13,922
Balance at end of period	$5,794	$4,431	$356	$ 949	$ 1,881	$ 10	$ 656	$14,077
Loans individually evaluated for impairment	$7,418	$1,007	$185	$ -	$ 540	$ -	$ 26	$9,176
Loans collectively evaluated for impairment	432,179	577,433	20,939	19,859	195,302	255	36,671	1,282,638
Total gross loans	$439,597	$578,440	$21,124	$ 19,859	$ 195,842	$ 255	$ 36,697	$1,291,814

The following table presents information relating to the Company's internal risk ratings of its loans receivable as of September 30, 2018 and December 31, 2017:

	One to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
At September 30, 2018								
Substandard	$8,061	$ 981	$249	$ -	$ 732	$ -	$ 936	$10,959
Watch	6,053	326	421	-	109	-	923	7,832
Pass	471,335	585,256	19,747	8,947	221,901	400	31,279	1,338,865
	$485,449	$ 586,563	$20,417	$ 8,947	$ 222,742	$ 400	$ 33,138	$1,357,656
At December 31, 2017								
Substandard	$7,581	$ 1,135	$138	$ -	$ 1,124	$ -	$ 1,585	$11,563
Watch	4,939	330	401	-	295	-	741	6,706
Pass	427,077	576,975	20,585	19,859	194,423	255	34,371	1,273,545
	$439,597	$ 578,440	$21,124	$ 19,859	$ 195,842	$ 255	$ 36,697	$1,291,814

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. A member of the credit department, independent of the loan originator, performs a loan review 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 September 30, 2018 and December 31, 2017.

	As of or for the Nine Months Ended September 30, 2018					
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Interest Paid
	(In Thousands)					
Total Impaired with Reserve						
One- to four-family	$467	$ 467	$ 51	$ -	$ 468	$ 24
Multi-family	-	-	-	-	-	-
Home equity	76	76	32	-	79	4
Construction and land	-	-	-	-	-	-
Commercial real estate	21	430	21	409	28	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
	564	973	104	409	575	28
Total Impaired with no Reserve						
One- to four-family	7,436	8,386	-	950	7,577	311
Multi-family	981	1,817	-	836	874	51
Home equity	141	141	-	-	145	4
Construction and land	-	-	-	-	-	-
Commercial real estate	436	436	-	-	438	11
Consumer	-	-	-	-	-	-
Commercial	26	26				