TIMBERLAND BANCORP INC
Form 10-Q
May 11, 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 quarterly period ended March 31, 2012

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____.

Commission file number 0-23333

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

Washington (State or other jurisdiction of incorporation or organization)	91-1863696 (IRS Employer Identification No.)
624 Simpson Avenue, Hoquiam, Washington (Address of principal executive offices)	98550 (Zip Code)

(360) 533-4747
(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 X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 _X_ No __

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

Large accelerated filer ___	Accelerated Filer	Non-accelerated filer __	Smaller reporting company _X_

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

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

CLASS	SHARES OUTSTANDING AT April 30, 2012
Common stock, $.01 par value	7,045,036

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2012 and September 30, 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 31, 2012	September 30, 2011
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 11,154	$ 11,455
Interest-bearing deposits in banks	100,467	100,610
Total cash and cash equivalents	111,621	112,065
Certificates of deposit (“CDs”) held for investment (at cost which approximates fair value)	20,180	18,659
Mortgage-backed securities (“MBS”) and other investments - held to maturity, at amortized cost (estimated fair value $3,828 and $4,229)	3,706	4,145
MBS and other investments - available for sale	5,261	6,717
Federal Home Loan Bank of Seattle (“FHLB”) stock	5,705	5,705
Loans receivable	545,961	535,926
Loans held for sale	1,296	4,044
Less: Allowance for loan losses	(12,264)	(11,946)
Net loans receivable	534,993	528,024
Premises and equipment, net	17,640	17,390
Other real estate owned (“OREO”) and other repossessed assets, net	8,024	10,811
Accrued interest receivable	2,369	2,411
Bank owned life insurance (“BOLI”)	16,228	15,917
Goodwill	5,650	5,650
Core deposit intangible (“CDI”)	323	397
Mortgage servicing rights (“MSRs”), net	2,284	2,108
Prepaid Federal Deposit Insurance Corporation (“FDIC”) insurance assessment	1,643	2,103
Other assets	7,082	6,122
Total assets	$742,709	$738,224
Liabilities and shareholders’ equity		
Liabilities:		
Deposits: Non-interest-bearing demand	$ 69,633	$ 64,494
Deposits: Interest-bearing	534,963	528,184

Total deposits	604,596	592,678
FHLB advances	45,000	55,000
Repurchase agreements	948	729
Other liabilities and accrued expenses	4,181	3,612
Total liabilities	654,725	652,019
Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; 16,641 shares, Series A, issued and outstanding; $1,000 per share liquidation value	16,107	15,989
Common stock, $.01 par value; 50,000,000 shares authorized; 7,045,036 shares issued and outstanding	10,480	10,457
Unearned shares - Employee Stock Ownership Plan ("ESOP")	(1,851)	(1,983)
Retained earnings	63,826	62,270
Accumulated other comprehensive loss	(578)	(528)
Total shareholders' equity	87,984	86,205
Total liabilities and shareholders' equity	$742,709	$738,224

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended March 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Interest and dividend income				
Loans receivable	$7,607	$8,240	$15,412	$16,774
MBS and other investments	109	162	234	344
Dividends from mutual funds	7	8	20	16
Interest-bearing deposits in banks	81	83	170	170
Total interest and dividend income	7,804	8,493	15,836	17,304
Interest expense				
Deposits	1,035	1,591	2,204	3,342
FHLB advances	496	550	1,058	1,279
Total interest expense	1,531	2,141	3,262	4,621
Net interest income	6,273	6,352	12,574	12,683
Provision for loan losses	1,050	700	1,700	1,600
Net interest income after provision for loan Losses	5,223	5,652	10,874	11,083
Non-interest income				
Other than temporary impairment (“OTTI”) on MBS and other investments	(94)	(9)	(123)	(154)
Adjustment for portion recorded as other comprehensive loss (before taxes)	--	(26)	(30)	(17)
Net OTTI on MBS and other investments	(94)	(35)	(153)	(171)
Realized losses on MBS and other investments	--	(2)	--	(2)
Gain on sales of MBS and other investments	20	--	20	79
Service charges on deposits	890	898	1,860	1,882
ATM transaction fees	540	458	1,057	869

BOLI net earnings	154	118	311	240
Gain on sales of loans, net	596	266	1,155	967
Servicing income (expense) on loans sold	4	16	13	(20)
Escrow fees	22	18	49	39
Valuation recovery on MSRs	142	206	226	840
Fee income from non-deposit investment sales	26	17	38	48
Other	193	148	361	289
Total non-interest income, net	2,493	2,108	4,937	5,060

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and six months ended March 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Non-Interest expense				
Salaries and employee benefits	$ 3,055	$ 3,115	$ 5,983	$ 6,243
Premises and equipment	682	658	1,332	1,328
Advertising	172	201	380	368
OREO and other repossessed assets, net	434	6	936	434
ATM expenses	197	206	392	380
Postage and courier	139	146	257	261
Amortization of CDI	37	42	74	83
State and local taxes	152	160	301	320
Professional fees	232	196	411	377
FDIC insurance	241	332	466	672
Other insurance	53	89	109	243
Loan administration and foreclosure	372	267	533	365
Data processing and telecommunications	315	281	615	561
Deposit operations	193	140	416	245
Other	298	339	589	674
Total non-interest expense	6,572	6,178	12,794	12,554
Income before federal and state income taxes	1,144	1,582	3,017	3,589
Provision for federal and state income taxes	336	499	927	1,147
Net income	808	1,083	2,090	2,442
Preferred stock dividends	(208)	(208)	(416)	(416)
Preferred stock discount accretion	(59)	(56)	(118)	(111)
Net income to common shareholders	$ 541	$ 819	$ 1,556	$ 1,915
Net income per common share				
Basic	$ 0.08	$ 0.12	$ 0.23	$ 0.28
Diluted	$ 0.08	$ 0.12	$ 0.23	$ 0.28

Weighted average common shares outstanding				
Basic	6,780,516	6,745,250	6,780,516	6,745,250
Diluted	6,780,516	6,745,250	6,780,516	6,745,250

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended March 31, 2012 and 2011
(In thousands)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Comprehensive income:				
Net income	$ 808	$ 1,083	$ 2,090	$ 2,442
Unrealized holding gain (loss) on securities available for sale, net of tax	(42)	27	(56)	(48)
Change in OTTI on securities held to maturity, net of tax:				
Additions	(13)	(8)	(27)	(55)
Additional amount recognized related to credit loss for which OTTI was previously recognized	8	13	(4)	9
Amount reclassified to credit loss for previously recorded market loss	5	12	11	57
Accretion of OTTI securities held to maturity, net of tax	15	13	26	19
Total comprehensive income	$ 781	$ 1,140	$ 2,040	$ 2,424

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six months ended March 31, 2012 and the year ended September 30, 2011
(Dollars in thousands)
(Unaudited)

	Number of Shares Preferred Stock	Number of Shares Common Stock	Amount Preferred Stock	Amount Common Stock	Unearned Shares ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
Balance, September 30, 2010	16,641	7,045,036	$15,764	$10,377	$(2,247)	$62,238	$(724)	$85,408
Net income	--	--	--	--	--	1,089	--	1,089
Accretion of preferred stock discount	--	--	225	--	--	(225)	--	--
5% preferred stock dividend	--	--	--	--	--	(832)	--	(832)
Earned ESOP shares	--	--	--	(61)	264	--	--	203
MRDP (1) compensation expense	--	--	--	134	--	--	--	134
Stock option compensation expense	--	--	--	7	--	--	--	7
Unrealized holding gain on securities available for sale, net of tax	--	--	--	--	--	--	14	14
Change in OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	139	139
Accretion of OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	43	43
Balance, September 30, 2011	16,641	7,045,036	15,989	10,457	(1,983)	62,270	(528)	86,205
Net income	--	--	--	--	--	2,090	--	2,090
Accretion of preferred stock discount	--	--	118	--	--	(118)	--	--
5% preferred stock dividend	--	--	--	--	--	(416)	--	(416)
Earned ESOP shares	--	--	--	(39)	132	--	--	93
	--	--	--	55	--	--	--	55

MRDP compensation expense								
Stock option compensation expense	--	--	--	7	--	--	--	7
Unrealized holding loss on securities available for sale, net of tax	--	--	--	--	--	--	(56)	(56)
Change in OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	(20)	(20)
Accretion of OTTI on securities held to maturity, net of tax				--	--	--	26	26
Balance, March 31, 2012	16,641	7,045,036	$16,107	$10,480	$(1,851)	$63,826	$(578)	$87,984

(1) 1998 Management Recognition and Development Plan ("MRDP").

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended March 31, 2012 and 2011
(Dollars in thousands)
(Unaudited)

	Six Months Ended March 31,	
	2012	2011
Cash flow from operating activities		
Net income	$ 2,090	$ 2,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,700	1,600
Depreciation	460	499
Deferred federal income taxes	353	128
Amortization of CDI	74	83
Earned ESOP shares	132	132
MRDP compensation expense	55	85
Stock option compensation expense	7	3
Loss (gain) on sales of OREO and other repossessed assets, net	294	(555)
Provision for OREO losses	372	684
Loss on disposition of premises and equipment	--	3
BOLI net earnings	(311)	(240)
Gain on sales of loans, net	(1,155)	(967)
Decrease in deferred loan origination fees	(86)	(169)
Net OTTI on MBS and other investments	153	171
Gain on sales of MBS and other investments	(20)	(79)
Realized losses on held to maturity securities	--	2
Valuation recovery on MSRs	(226)	(840)
Loans originated for sale	(43,684)	(35,449)
Proceeds from sales of loans	47,588	38,217
(Decrease) increase in other assets, net	(774)	409
Increase in other liabilities and accrued expenses, net	153	316
Net cash provided by operating activities	7,175	6,475
Cash flow from investing activities		
Net (increase) decrease in CDs held for investment	(1,521)	617
Proceeds from maturities and prepayments of MBS and other investments available for sale	617	981
Proceeds from maturities and prepayments of MBS and other investments held to maturity	364	497
Proceeds from sales of MBS and other investments	743	2,272
Increase in loans receivable, net	(9,908)	(3,395)
Additions to premises and equipment	(710)	(225)

Proceeds from sales of OREO and other repossessed assets	698	1,777
Net cash (used in) provided by investing activities	(9,717)	2,524
Cash flow from financing activities		
Increase in deposits, net	11,918	18,294
Repayment of FHLB advances	(10,000)	(20,000)
Increase (decrease) in repurchase agreements	219	(27)
ESOP tax effect	(39)	(55)
Net cash provided by (used in) financing activities	2,098	(1,788)

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the six months ended March 31, 2012 and 2011
(Dollars in thousands)
(Unaudited)

	Six Months Ended March 31,	
	2012	2011
Net (decrease) increase in cash and cash equivalents	$ (444)	$ 7,211
Cash and cash equivalents		
Beginning of period	112,065	111,786
End of period	$ 111,621	$ 118,997
Supplemental disclosure of cash flow information		
Income taxes paid	$ 918	$ 1,137
Interest paid	3,390	4,738
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$ 1,937	$ 2,065
Loan originated to facilitate the sale of OREO	3,360	1,538

See notes to unaudited condensed consolidated financial statements

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Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2011 ("2011 Form 10-K"). The unaudited condensed consolidated results of operations for the six months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2012.

(b) Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corp. All significant inter-company balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, "Timberland Bank."

(d) The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the March 31, 2012 presentation with no change to net income or total shareholders' equity previously reported.

(2) REGULATORY MATTERS

In December 2009, the FDIC and the Washington State Department of Financial Institutions, Division of Banks ("Division") determined that the Bank required supervisory attention and, on December 29, 2009, entered into an agreement on a Memorandum of Understanding with the Bank ("Bank MOU"). Under the Bank MOU, the Bank must, among other things, maintain Tier 1 Capital of not less than 10.0% of the Bank's adjusted total assets and maintain capital ratios above the "well capitalized" thresholds as defined under FDIC Rules and Regulations; obtain the prior consent from the FDIC and the Division prior to the Bank declaring a dividend to its holding company; and not engage in any transactions that would materially change the Bank's balance sheet composition including growth in total assets of five percent or more or significant changes in funding sources without the prior non-objection of the FDIC.

In addition, on February 1, 2010, the Federal Reserve Bank of San Francisco ("FRB") determined that the Company required additional supervisory attention and entered into a Memorandum of Understanding with the Company ("Company MOU"). Under the Company MOU, the Company must, among other things, obtain

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prior written approval or non-objection from the FRB to declare or pay any dividends, or make any other capital distributions; issue any trust preferred securities; or purchase or redeem any of its stock. The FRB has denied the Company's requests to pay dividends on its Series A Preferred Stock issued under the U.S. Treasury Department's Capital Purchase Program ("CPP") for quarterly payments due for the last eight quarters commencing with the payments due May 15, 2010. For additional information on the CPP, see Note 3 below entitled "U.S Treasury Department's Capital Purchase Program."

(3) U.S. TREASURY DEPARTMENT'S CAPITAL PURCHASE PROGRAM

On December 23, 2008, the Company received $16.64 million from the U.S. Treasury Department ("Treasury") as a part of the Treasury's CPP. The CPP was established as part of the Troubled Asset Relief Program ("TARP"). The Company sold 16,641 shares of senior preferred stock with a related warrant to purchase 370,899 shares of the Company's common stock at a price of $6.73 per share at any time through December 23, 2018. The preferred stock pays a 5.0% dividend for the first five years, after which the rate increases to 9.0% if the preferred shares are not redeemed by the Company.

Preferred stock is initially recorded at the amount of proceeds received. Any discount from the liquidation value is accreted to the expected call date and charged to retained earnings. This accretion is recorded using the level-yield method. Preferred dividends paid (or accrued) and any accretion is deducted from net income for computing net income to common shareholders and net income per share computations.

Under the Company MOU, the Company must, among other things, obtain prior written approval or non-objection from the FRB to declare or pay any dividends. The FRB has denied the Company's requests to pay dividends on its Series A Preferred Stock issued under the CPP for quarterly payments due for the last eight quarters commencing with the payment due May 15, 2010. There can be no assurances that the FRB will approve such payments or dividends in the future. The Company may not declare or pay dividends on its common stock or, with certain exceptions, repurchase common stock without first having paid all cumulative preferred dividends that are due. Since dividends on the Series A Preferred Stock have not been paid for at least six quarters, the Treasury has the right to appoint two members to the Company's Board of Directors.

(4) MBS AND OTHER INVESTMENTS

MBS and other investments have been classified according to management's intent and are as follows as of March 31, 2012 and September 30, 2011 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	$1,690	$34	$(8)	$1,716
Private label residential	1,989	200	(106)	2,083
U.S. agency securities	27	2	--	29
Total	$3,706	$236	$(114)	$3,828
Available for Sale				
MBS:				
U.S. government agencies	$3,165	$116	$--	$3,281
Private label residential	1,086	60	(159)	987
Mutual funds	1,000	--	(7)	993
Total	$5,251	$176	$(166)	$5,261
September 30, 2011				
Held to Maturity				
MBS:				
U.S. government agencies	$1,831	$45	$(4)	$1,872
Private label residential	2,287	311	(271)	2,327
U.S. agency securities	27	3	--	30
Total	$4,145	$359	$(275)	$4,229
Available for Sale				
MBS:				
U.S. government agencies	$4,395	$188	$--	$4,583
Private label residential	1,227	59	(152)	1,134
Mutual funds	1,000	--	--	1,000
Total	$6,622	$247	$(152)	$6,717

The estimated fair value of temporarily impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed as of March 31, 2012 are as follows (dollars in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held to Maturity						
MBS:						
U.S. government agencies	$119	$(2)	$338	$(6)	$457	$(8)
Private label residential	68	(3)	729	(103)	797	(106)
Total	$187	$(5)	$1,067	$(109)	$1,254	$(114)
Available for Sale						
MBS:						
U.S. government agencies	$- -	$- -	$- -	$- -	$- -	$- -
Private label residential	- -	- -	669	(159)	669	(159)
Mutual funds	- -	- -	993	(7)	993	(7)
Total	$- -	$- -	$1,662	$(166)	$1,662	$(166)

During the three months ended March 31, 2012 and 2011, the Company recorded net OTTI charges through earnings on residential MBS of $94,000 and $35,000, respectively. During the six months ended March 31, 2012 and 2011, the Company recorded net OTTI charges through earnings on residential MBS of $153,000 and $171,000, respectively. The Company provides for the bifurcation of OTTI into (i) amounts related to credit losses which are recognized through earnings, and (ii) amounts related to all other factors which are recognized as a component of other comprehensive income (loss).

To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of each OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates, prepayment speeds and third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans. The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on OTTI securities as of March 31, 2012 and September 30, 2011:

	Range		Weighted
	Minimum	Maximum	Average
At March 31, 2012			
Constant prepayment rate	6.00%	15.00%	9.05%
Collateral default rate	0.01%	26.53%	10.38%
Loss severity rate	0.23%	79.24%	52.30%
At September 30, 2011			
Constant prepayment rate	6.00%	15.00%	10.71%

Collateral default rate	0.43	%	24.23	%	8.03	%
Loss severity rate	11.93	%	64.54	%	39.22	%

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The following tables present the OTTI for the three and six months ended March 31, 2012 and 2011 (dollars in thousands):

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$ 88	$ 6	$ 8	$ 1
Portion of OTTI recognized in other comprehensive (income) loss (before income taxes) (1)	--	--	26	--
Net OTTI recognized in earnings (2)	$ 88	$ 6	$ 34	$ 1

	Six Months Ended March 31, 2012		Six Months Ended March 31, 2011	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	$ 140	$ 43	$ 153	$ 1
Portion of OTTI recognized in other comprehensive (income) loss (before income taxes) (1)	(30)	--	17	--
Net OTTI recognized in earnings (2)	$ 110	$ 43	$ 170	$ 1

(1) Represents OTTI related to all other factors.
(2) Represents OTTI related to credit losses.

The following table presents a roll-forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income for the six months ended March 31, 2012 and 2011 (in thousands):

	Six Months Ended March 31,	
	2012	2011
Beginning balance of credit loss	$ 3,361	$ 4,725
Additions:		
Credit losses for which OTTI was not previously recognized	66	47
Additional increases to the amount related to credit loss for which OTTI was previously recognized	87	124
Subtractions:		
Realized losses previously recorded as credit losses	(419)	(881)
Ending balance of credit loss	$ 3,095	$ 4,015

There was a gross realized gain on sale of securities for both the three and six months ended March 31, 2012 of $20,000. There were no gross realized gains on sale of MBS and other investments for the three months ended March

31, 2011. There was a gross realized gain on sale of MBS and other investments for the six months ended March 31, 2011 of $79,000. During the three months ended March 31, 2012, the Company recorded a $223,000 realized loss (as a result of the securities being deemed worthless) on 18 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2012, the Company recorded a $419,000 realized loss (as a result of the securities being deemed worthless) on 20 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended March 31, 2011, the Company recorded a $386,000 realized loss (as a result of the securities being deemed worthless) on 17 held to maturity residential MBS of which $384,000 had previously been recognized as a credit loss. During the six months ended March 31, 2011, the Company recorded a $883,000 realized loss on 18 held to maturity residential MBS and one available for sale residential MBS of which $881,000 had previously been recognized as a credit loss.

The amortized cost of residential mortgage-backed and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral, retail repurchase agreements and other non-profit organization deposits totaled $6.28 million and $7.88 million at March 31, 2012 and September 30, 2011, respectively.

The contractual maturities of debt securities at March 31, 2012 are as follows (dollars in thousands). Expected maturities may differ from scheduled maturities as a result of the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 14	$ 14	$ --	$ --
Due after one year to five years	7	8	77	82
Due after five to ten years	35	37	--	- -
Due after ten years	3,650	3,769	4,174	4,186
Total	$ 3,706	$ 3,828	$ 4,251	$ 4,268

(5) FHLB STOCK

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating it for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; 2) the impact of legislative and regulatory changes on the FHLB; and 3) the liquidity position of the FHLB. On October 25, 2010, the FHLB announced that it had entered into a Consent Agreement with the Federal Housing Finance Agency ("FHFA"), which requires the FHLB to take certain specific actions related to its business and operations. As of its latest regulatory filing, the FHLB reported that it had met all of its regulatory capital requirements, but remained classified as "undercapitalized" by the FHFA. The FHLB will not pay a dividend or repurchase capital stock while it is classified as undercapitalized. While the FHLB was classified as undercapitalized, the Company does not believe that its investment in the FHLB is impaired as of March 31, 2012. However, this estimate could change in the near term if: 1) significant other-than-temporary losses are incurred on the FHLB's MBS causing a significant decline in its regulatory capital status; 2) the economic losses resulting from credit deterioration on the FHLB's MBS increases significantly; or 3) capital preservation strategies being utilized by the FHLB become ineffective.

(6) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable and loans held for sale consisted of the following at March 31, 2012 and September 30, 2011 (dollars in thousands):

	March 31, 2012		September 30, 2011	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (1)	$105,570	18.8 %	$114,680	20.5 %
Multi-family	30,745	5.5	30,982	5.5
Commercial	255,327	45.6	246,037	43.9
Construction and land development	57,069	10.2	52,484	9.4
Land	44,553	7.9	49,236	8.8
Total mortgage loans	493,264	88.0	493,419	88.1
Consumer loans:				
Home equity and second mortgage	33,979	6.1	36,008	6.4
Other	6,234	1.1	8,240	1.5
Total consumer loans	40,213	7.2	44,248	7.9