NORTHEAST COMMUNITY BANCORP INC
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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: 0-51852

Northeast Community Bancorp, Inc.

(Exact name of registrant as specified in its charter)

United States of America	**06-1786701**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

325 Hamilton Avenue, White Plains, New York	**10601**
(Address of principal executive offices)	(Zip Code)

(914) 684-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer ¨ (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 of the Exchange Act). Yes ¨ No x

As of November 8, 2013, there were 12,644,752 shares of the registrant's common stock outstanding.

NORTHEAST COMMUNITY BANCORP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	September 30, 2013	December 31, 2012
	(In thousands, except share and per share data)	
ASSETS		
Cash and amounts due from depository institutions	$ 2,530	$ 2,821
Interest-bearing deposits	28,071	46,421
Cash and cash equivalents	30,601	49,242
Certificates of deposit	1,146	399
Securities available-for-sale	116	129
Securities held-to-maturity (fair value of $9,374 and $12,561, respectively)	9,040	11,987
Loans receivable, net of allowance for loan losses of $4,014 and $4,646, respectively	345,499	333,787
Premises and equipment, net	12,381	12,898
Federal Home Loan Bank of New York stock, at cost	874	1,355
Bank owned life insurance	20,332	19,852
Accrued interest receivable	1,092	976
Goodwill	749	1,083
Intangible assets	360	406
Other real estate owned	3,821	4,271
Other assets	7,108	7,839
Total assets	$ 433,119	$ 444,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 21,798	$ 22,932
Interest bearing	294,158	295,188
Total deposits	315,956	318,120
Advance payments by borrowers for taxes and insurance	3,881	3,516
Federal Home Loan Bank advances	5,000	15,000
Accounts payable and accrued expenses	3,650	3,739
Total liabilities	328,487	340,375
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; 12,644,752 shares outstanding at September 30, 2013 and December 31, 2012	132	132

Additional paid-in capital	57,101	57,178
Unearned Employee Stock Ownership Plan (“ESOP”) shares	(3,175)	(3,370)
Retained earnings	54,409	53,893
Treasury stock – at cost, 580,248 shares	(3,712)	(3,712)
Accumulated other comprehensive loss	(123)	(272)
Total stockholders’ equity	104,632	103,849
Total liabilities and stockholders’ equity	$ 433,119	$ 444,224

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
INTEREST INCOME:				
Loans	$4,304	$4,817	$13,627	$14,678
Interest-earning deposits	3	7	9	29
Securities – taxable	72	116	255	379
Total Interest Income	4,379	4,940	13,891	15,086
INTEREST EXPENSE:				
Deposits	749	634	2,207	2,451
Borrowings	46	139	192	419
Total Interest Expense	795	773	2,399	2,870
Net Interest Income	3,584	4,167	11,492	12,216
PROVISION (CREDIT) FOR LOAN LOSSES	(191)	1,912	(554)	2,029
Net Interest Income after Provision (Credit) for Loan Losses	3,775	2,255	12,046	10,187
NON-INTEREST INCOME:				
Other loan fees and service charges	122	293	462	716
Gain (loss) on disposition of equipment	—	—	—	(9)
Earnings on bank owned life insurance	162	163	481	448
Investment advisory fees	183	242	537	681
Other	5	4	15	10
Total Non-Interest Income	472	702	1,495	1,846
NON-INTEREST EXPENSES:				
Salaries and employee benefits	1,862	2,554	6,197	6,928
Occupancy expense	352	375	1,092	983
Equipment	138	219	469	577
Outside data processing	229	265	789	780
Advertising	13	81	43	194
Impairment loss on goodwill	—	—	334	—
Other real estate owned expense	59	—	318	—
FDIC insurance premiums	155	91	268	283
Other	914	1,219	2,760	3,485
Total Non-Interest Expenses	3,722	4,804	12,270	13,230
Income (Loss) before Provision for Income Taxes	525	(1,847)	1,271	(1,197)
PROVISION (BENEFIT) FOR INCOME TAXES	144	(847)	302	(714)
Net Income (Loss)	$381	$(1,000)	$969	$(483)
Net Income (Loss) per Common Share – Basic	$0.03	$(0.08)	$0.08	$(0.04)
Weighted Average Number of Common Shares Outstanding – Basic	12,324	12,298	12,318	12,292

Dividends Declared per Common Share	$0.03	$—	$0.09	$0.06

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30, (In thousands)		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$381	$(1,000)	$ 969	$ (483)
Other comprehensive income (loss):				
Defined benefit pension:				
Reclassification adjustments out of accumulated other comprehensive loss:				
Amortization of prior service cost (1)	5	5	15	16
Amortization of actuarial loss (1)	9	—	27	—
Actuarial gains (losses) arising during period	69	(111)	207	(228)
Total	83	(106)	249	(212)
Income tax effect (2)	(33)	43	(100)	86
Total other comprehensive income (loss)	50	(63)	149	(126)
Total comprehensive income (loss)	$431	$(1,063)	$ 1,118	$ (609)

(1) Amounts are included in salaries and employees benefits in the unaudited consolidated statements of income (loss) as part of net periodic pension cost. See note 4 for further information.

(2) Amounts are included in provision (benefit) for income taxes in the unaudited consolidated statements of income (loss).

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2013 and 2012 (in thousands)

	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2011	$ 132	$ 57,292	$ (3,629)	$ 57,076	$ (3,712)	$ (94)	$ 107,065
Net loss	—	—	—	(483)	—	—	(483)
Other comprehensive loss	—	—	—	—	—	(126)	(126)
Cash dividend declared ($.06 per share)	—	—	—	(518)	—	—	(518)
ESOP shares earned	—	(83)	194	—	—	—	111
Balance – September 30, 2012	$ 132	$ 57,209	$ (3,435)	$ 56,075	$ (3,712)	$ (220)	$ 106,049
Balance at December 31, 2012	$ 132	$ 57,178	$ (3,370)	$ 53,893	$ (3,712)	$ (272)	$ 103,849
Net income	—	—	—	969	—	—	969
Other comprehensive income	—	—	—	—	—	149	149
Cash dividend declared ($.09 per share)	—	—	—	(453)	—	—	(453)
ESOP shares earned	—	(77)	195	—	—	—	118
Balance – September 30, 2013	$ 132	$ 57,101	$ (3,175)	$ 54,409	$ (3,712)	$ (123)	$ 104,632

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities:		
Net income (loss)	$969	$(483)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net amortization of securities premiums and discounts, net	55	33
Provision (credit) for loan losses	(554)	2,029
Depreciation	572	497
Net amortization of deferred loan fees and costs	114	147
Amortization of intangible assets	46	20
Deferred income tax expense	78	529
Impairment loss on goodwill	334	—
Loss on sale of other real estate owned	51	—
Loss on disposal of equipment	—	9
Earnings on bank owned life insurance	(481)	(448)
ESOP compensation expense	118	111
(Increase) decrease in accrued interest receivable	(116)	537
Increase (decrease) in other assets	553	(1,006)
(Decrease) increase in accounts payable and accrued expenses	161	(1,833)
Net Cash Provided by Operating Activities	1,900	142
Cash Flows from Investing Activities:		
Net (increase) decrease in loans	(11,272)	7,211
Proceeds from sale of other real estate owned	399	—
Principal repayments on securities available-for-sale	13	17
Principal repayments on securities held-to-maturity	2,892	3,007
Proceeds from maturities of certificates of deposit	249	1,992
Purchases of certificates of deposit	(996)	—
Redemption of Federal Home Loan Bank of New York stock	481	278
Purchases of bank owned life insurance	—	(2,500)
Purchases of premises and equipment	(55)	(3,935)
Net Cash (Used In) Provided by Investing Activities	(8,289)	6,070
Cash Flows from Financing Activities:		
Net decrease in deposits	(2,164)	(34,637)
Repayment of FHLB of NY advances	(10,000)	(5,000)
Increase in advance payments by borrowers for taxes and insurance	365	661
Cash dividends paid	(453)	(518)
Net Cash Used in Financing Activities	(12,252)	(39,494)
Net Decrease in Cash and Cash Equivalents	(18,641)	(33,282)
Cash and Cash Equivalents - Beginning	49,242	82,583
Cash and Cash Equivalents - Ending	$30,601	$49,301
SUPPLEMENTARY CASH FLOWS INFORMATION		

Income taxes paid	$104	$2,375
Interest paid	$2,399	$2,870
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Real estate owned transferred to premises and equipment	$—	$620

See Notes to Unaudited Consolidated Financial Statements

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NORTHEAST COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the "Company") is a federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the "Bank"), in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly owned subsidiaries, New England Commercial Properties, LLC ("NECP") and NECB Financial Services Group, LLC. NECB Financial Services Group was formed by the Bank in the second quarter of 2012 as a complement to the Bank's existing investment advisory and financial planning services division, Hayden Wealth Management. As of the filing of this Form 10-Q, NECB Financial Services Group has not conducted any business. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders' equity and cash flows in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2012 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. That data, along with the interim financial information presented in the unaudited consolidated statements of financial condition, income, comprehensive income, stockholders' equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after September 30, 2013 and through the date these consolidated financial statements were issued.

Loans

Loans are stated at unpaid principal balances plus net deferred loan origination costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured and in the process of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Interest on loans that have been restructured is accrued according to the renegotiated terms, unless on non-accrual. Net loan origination fees and costs are deferred and amortized into income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

Allowance for Loan Losses

The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Risk characteristics associated with the types of loans the Company underwrites are as follows:

Multi-family, Mixed-use and Non-residential Real Estate Loans. Loans secured by multi-family, mixed-use, and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income producing properties, we require borrowers to provide annual financial statements for all multi-family, mixed-use and non-residential real estate loans. In reaching a decision on whether to make a multi-family, mixed-use or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. In addition, with respect to non-residential real estate properties, we also consider the term of the lease and the quality of the tenants. An appraisal of the real estate used as collateral for the real estate loan is also obtained as part of the underwriting process. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings after subtracting all operating expenses to debt service payments) of at least 1.25x. In underwriting these loans, we take into account projected increases in interest rates in determining whether a loan meets our debt service coverage ratios at the higher interest rate under the adjustable rate mortgage. Environmental surveys and property inspections are utilized for all loans.

Commercial and Industrial Loans. Unlike multi-family, mixed-use, and non-residential mortgage loans, which are generally made on the basis of a borrower's ability to make repayment from the operation and cash flow from the real property whose value tends to be more ascertainable, commercial and industrial loans are of higher risk and tend to be made on the basis of a borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Construction Loans. Construction financing affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does residential mortgage loans. However, construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loans outstanding at any time and by spreading the loans among multi-family, mixed-use and non-residential projects. In connection with construction loans that convert to permanent loans with us, we underwrite these loans using the same underwriting standards as our multi-family, mixed-use and non-residential real estate loans. If we do not offer permanent financing to the borrower, we minimize risks by requiring the borrower to obtain permanent financing from another financial institution.

Residential One-to-Four Family Loans. Residential one-to-four family mortgage loans are secured by the borrower’s personal residence. These loans have varying loan rates, depending on the financial condition of the borrower and the loan to value ratio, and have amortizations up to 30 years. Such loans are considered to have a lower degree of risk when compared to our other loan types.

Consumer Loans. We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans represent a significant risk of loss to the Company.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

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NOTE 1 – BASIS OF PRESENTATION (Continued)

Allowance for Loan Losses (Continued)

Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

The Company does not evaluate consumer or residential one- to four-family loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or discounted cash flows.

For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in policies and procedures in underwriting standards and collections.
2. Changes in economic conditions.
3. Changes in nature and volume of lending.
4. Experience of origination team.
5. Changes in past due loan volume and severity of classified assets.
6. Quality of loan review system.
7. Collateral values in general throughout lending territory.
8. Concentrations of credit.
9. Competition, legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

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Allowance for Loan Losses (Continued)

The allowance for loan losses calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. The Company's Chief Executive Officer is ultimately responsible for the timely and accurate risk rating of the loan portfolio.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Adversely classified, non-accrual troubled debt restructurings may be reclassified if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

In addition, banking regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is adequate as of September 30, 2013.

Goodwill

The Company recognized goodwill in connection with the acquisition of its wealth management division in 2007. In the fourth quarter of 2012, the Company performed an impairment test and determined that the fair value of this division was less than its carrying value and, accordingly, recorded an impairment charge of $227,000 in 2012. During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment previously recorded in 2012 was necessary. As a result, an additional impairment charge of $334,000 was recognized during the second quarter of 2013.

The impairment charges were the result of a reduction in expected cash flow from this division resulting from the departure of two employees, one of which had generated significant other commission income from sales of insurance and annuity products. We expect future commission income to decline 50% from prior levels. This decline resulted in a decrease in the value of this division.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and, during the nine-month periods ended September 30, 2013 and 2012, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan (“ESOP”) are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

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NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2012 and September 30, 2013, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2012, the Company had allocated 155,526 shares to participants, and an additional 25,921 shares had been committed to be released. As of September 30, 2013, the Company had allocated 181,447 shares to participants, and an additional 19,441 shares had been committed to be released.

The Company recognized compensation expense of $43,000 and $35,000 during the three-month periods ended September 30, 2013 and 2012, respectively, and $118,000 and $111,000 during the nine-month periods ended September 30, 2013 and 2012, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

NOTE 4 – Outside Director Retirement Plan ("DRP")

Periodic expenses for the Company's DRP were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	(In thousands)			
	2013	2012	2013	2012
Service cost	$18	$ 12	$ 55	$ 38
Interest cost	11	13	31	38
Amortization of prior service cost	5	5	15	15
Amortization of actuarial loss	9	—	27	—
Total	$43	$ 30	$ 128	$ 91

This plan is an unfunded, non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The amortization of prior service cost and actuarial loss in the three-month periods ended September 30, 2013 and 2012 and the nine-month periods ended September 30, 2013 and 2012 is also reflected in other comprehensive income (loss) during those periods.

NOTE 5 – INVESTMENTS

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2013				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$65	$ 2	$ —	$67
Federal National Mortgage Association	47	2	—	49
Total	$112	$ 4	$ —	$116
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	$6,901	$ 241	$ —	$7,142
Federal Home Loan Mortgage Corporation	244	7	—	251
Federal National Mortgage Association	172	7	—	179
Collateralized mortgage obligations-GSE	1,722	79	—	1,801
Other	1	—	—	1
Total	$9,040	$ 334	$ —	$9,374

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NOTE 5 – INVESTMENTS (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2012				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$76	$ 2	$ —	$78
Federal National Mortgage Association	49	2	—	51
Total	$125	$ 4	$ —	$129
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	$9,044	$ 442	$ —	$9,486
Federal Home Loan Mortgage Corporation	267	9	—	276
Federal National Mortgage Association	215	8	—	223
Collateralized mortgage obligations-GSE	2,460	115	—	2,575
Other	1	—	—	1
Total	$11,987	$ 574	$ —	$12,561

Contractual final maturities of mortgage-backed securities available for sale were as follows:

	September 30, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Due after five but within ten years	$25	$25
Due after ten years	87	91
Total	$ 112	$ 116

Contractual final maturities of mortgage-backed securities held to maturity were as follows:

	September 30, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Due after one but within five years	$ 70	$ 72
Due after five but within ten years	126	131
Due after ten years	8,844	9,171

Total	$ 9,040	$ 9,374

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

NOTE 6 – FAIR VALUE DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets and liabilities on a non-recurring basis, such as impaired loans and other real estate owned. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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NOTE 6 – Fair Value DISCLOSURES (Continued)

Level 1:	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2:	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
Level 3:	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2013:	(In Thousands)			
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$67	$ —	$ 67	$ —
Federal National Mortgage Association	49	—	49	—
Total	$116	$ —	116	$ —
Nonrecurring:				
Impaired loans	$16,353	$ —	$ —	$ 16,353
December 31, 2012:				
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$78	$ —	78	$ —
Federal National Mortgage Association	51	—	51	—
Total	$129	$ —	129	$ —
Nonrecurring:				
Impaired loans	$10,515	$ —	$ —	$ 10,515
Real estate owned	$4,271	$ —	$ —	$ 4,271

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NOTE 6 – Fair Value DISCLOSURES (Continued)

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Weighted Average Rate
September 30, 2013:				
Impaired loans	$16,353	Appraisal of collateral (1)	Appraisal adjustments (2)	7.73%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Weighted Average Rate
December 31, 2012:				
Impaired loans	$10,515	Appraisal of collateral (1)	Appraisal adjustments (2)	7.80%
Real estate owned	$4,271	Appraisal of collateral (1)	Appraisal adjustments (2)	8.50%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company’s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company’s disclosures and those of other companies may not be meaningful.

The following methods and assumptions were used to estimate the fair values of the Company’s financial instruments at September 30, 2013 and December 31, 2012:

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

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NOTE 6 – Fair Value DISCLOSURES (Continued)

Securities

Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Loans Receivable

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction and land development, other loans secured by real estate, commercial and industrial loans, and loans to individuals. Certain types, such as commercial loans and loans to individuals, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a current market rate. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For certain impaired loans, fair value is calculated by first reducing the carrying value by a credit risk adjustment based on internal loan classifications, and then discounting the estimated future cash flows from the remaining carrying value at a market rate.

For the remaining impaired loans which the Company has measured and recorded impairment generally based on the fair value of the loan's collateral, fair value is generally determined based upon independent third-party appraisals of the properties. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FHLB of New York Stock

The carrying amount of the FHLB of New York stock approximates its fair value, and considers the limited marketability of this security.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Time deposits are segregated by type, size, and remaining maturity. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market.

FHLB of New York Advances

The fair value of the FHLB advances is estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

Off-Balance- Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At September 30, 2013 and December 31, 2012, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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NOTE 6 – Fair Value DISCLOSURES (Continued)

The carrying amounts and fair values of the Company's financial instruments are summarized below:

			Fair Value at September 30, 2013		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$30,601	$30,601	$30,601	$ —	$ —
Certificates of deposit	1,146	1,146	—	1,146	—
Securities available for sale	116	116	—	116	—
Securities held to maturity	9,040	9,374	—	9,374	—
Loans receivable	345,499	354,739	—	—	354,739
FHLB of New York stock	874	874	—	874	—
Accrued interest receivable	1,092	1,092	—	1,092	—
Financial Liabilities					
Deposits	315,956	318,628	—	318,628	—
FHLB of New York advances	5,000	5,088	—	5,088	—
Accrued interest payable	3,650	3,650	—	3,650	—

			Fair Value at December 31, 2012		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Financial Assets					
Cash and cash equivalents	$49,242	$ 49,242	$49,242	$ —	$ —
Certificates of deposit	399	399	—	399	—
Securities available for sale	129	129	—	129	—
Securities held to maturity	11,987	12,561	—	12,561	—
Loans receivable	333,787	350,420	—	—	350,420
FHLB of New York stock	1,355	1,355	—	1,355	—
Accrued interest receivable	976	976	—	976	—
Financial Liabilities					
Deposits	318,120	321,236	—	321,236	—
FHLB of New York advances	15,000	15,256	—	15,256	—
Accrued interest payable	3,739	3,739	—	3,739	—

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

	September 30, 2013	December 31, 2012
	(In Thousands)	
Residential real estate:		
One-to-four family	$9,047	$ 7,761
Multi-family	180,305	178,644
Mixed use	46,583	41,895
Total residential real estate	235,935	228,300
Non-residential real estate	82,875	82,312
Construction	4,635	841
Commercial and Industrial	25,294	26,274
Consumer	159	77
Total Loans	348,898	337,804
Allowance for loan losses	(4,014)	(4,646)
Deferred loan costs, net	615	629
Net Loans	$345,499	$ 333,787

The following is an analysis of the allowance for loan losses:

At and for the Nine Months Ended September 30, 2013 (in thousands)

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	3,216	996	—	434	—	4,646
Charge-offs	—	(105)	—	—	—	(105)
Recoveries	23	4	—	—	—	27
Provision (credit)	(672)	66	118	(66)	—	(554)
Ending balance	$2,567	$961	$118	$368	$—	$4,014
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—
Ending balance: collectively evaluated for impairment	$2,567	$961	$118	$368	$—	$4,014

Loans receivable:

Ending balance	$235,935	$82,875	$4,635	$25,294	$159	$348,898
Ending balance: individually evaluated for impairment	$6,726	$11,409	$—	$—	$—	$18,135
Ending balance: collectively evaluated for impairment	$229,209	$71,466	$4,635	$25,294	$159	$330,763

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

For the Three Months Ended September 30, 2013 (in thousands)

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 2,804	$ 869	$ 75	$ 457	$ —	$4,205
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Provision (credit)	(237)	92	43	(89)	—	(191)
Ending balance	$ 2,567	$ 961	$ 118	$ 368	$ —	$4,014

For the Nine Months Ended September 30, 2012 (in thousands)

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 3,781	$ 1,596	$ 1,724	$ 296	$ —	$7,397
Charge-offs	(1,258)	(764)	(1,715)	—	—	(3,737)
Recoveries	16	—	—	—	—	16
Provision	1,573	466	(9)	(1)	—	2,029
Ending balance	$ 4,112	$ 1,298	$ —	$ 295	$ —	$5,705

For the Three Months Ended September 30, 2012 (in thousands)

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 2,681	$ 897	$ —	$ 289	$ —	$3,867
Charge-offs	(85)	—	—	—	—	(85)
Recoveries	11	—	—	—	—	11

Provision	1,505	401	—	6	—	1,912
Ending balance	$ 4,112	$ 1,298	$ —	$ 295	$ —	$5,705

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

At and for the Year Ended December 31, 2012 (in thousands)

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Ending balance - Total	$ 3,216	$ 996	$ —	$ 434	$ —	$ 4,646
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 3,216	$ 996	$ —	$ 434	$ —	$ 4,646
Loans receivable:						
Ending balance - Total	$ 228,300	$ 82,312	$ 841	$ 26,274	$ 77	$ 337,804
Ending balance: individually evaluated for impairment	$ 10,272	$ 8,272	$ —	$ 2,152	$ —	$ 20,696
Ending balance: collectively evaluated for impairment	$ 218,028	$ 74,040	$ 841	$ 24,122	$ 77	$ 317,108

The following is a summary of impaired loans at September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Residential real estate-Multi-family	$ 6,725	$ 7,355	$ —	$ 10,272	$ 11,742	$ —
Non-residential real estate	11,410	14,587	—	8,272	11,345	—
Construction	—	—	—	—	—	—
Commercial and industrial	—	—	—	2,152	2,179	—
Subtotal	$ 18,135	$ 21,942	$ —	$ 20,696	$ 25,266	$ —
Impaired loans with a valuation allowance:						
Residential real estate-Multi-family	—	—	—	—	—	—
Non-residential real estate	—	—	—	—	—	—
Construction	—	—	—	—	—	—

Commercial and industrial	—	—	—	—	—	—
Subtotal	$—	$—	$ —	$—	$—	$ —
Total impaired loans	$18,135	$21,942	$ —	$20,696	$25,266	$ —

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Further information pertaining to impaired loans follows:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In thousands)					
Residential real estate-Multi-family	$ 8,570	$ 62	$ 62	$ 9,726	$ 322	$ 322
Non-residential real estate	11,226	21	21	10,564	66	66
Commercial and industrial	916	—	—	1,459	49	49
Total	$ 20,712	$ 83	$ 83	$ 21,749	$ 437	$ 437

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Residential real estate-Multi-family	$ 9,804	$ 164	$ 9,756	$ 295
Non-residential real estate	13,479	15	13,476	1,370
Commercial and industrial	1,750	26	1,713	79
Total	$ 25,033	$ 205	$ 24,945	$ 1,744

The following table provides information about delinquencies in our loan portfolio at the dates indicated.

Age Analysis of Past Due Loans as of September 30, 2013 (in Thousands)

Current

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due		Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Residential real estate:							
One- to four-family	$ —	$ —	$ —	$ —	$9,047	$ 9,047	$ —
Multi-family	—	—	—	—	180,305	180,305	—
Mixed-use	—	—	—	—	46,583	46,583	—
Non-residential real estate	—	—	2,310	2,310	80,565	82,875	—
Construction loans	—	—	—	—	4,635	4,635	—
Commercial and industrial loans	—	—	—	—	25,294	25,294	—
Consumer	—	—	—	—	159	159	—
Total loans	$ —	$ —	$ 2,310	$ 2,310	$346,588	$ 348,898	$ —

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Age Analysis of Past Due Loans as of December 31, 2012 (in Thousands)

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Residential real estate:							
One- to four-family	$ —	$ —	$ —	$ —	$ 7,761	$ 7,761	$ —
Multi-family	—	89	1,266	1,355	177,289	178,644	—
Mixed-use	—	—	—	—	41,895	41,895	—
Non-residential real estate	1,259	—	1,221	2,480	79,832	82,312	—
Construction loans	—	—	—	—	841	841	—
Commercial and industrial loans	—	—	—	—	26,274	26,274	—
Consumer	—	—	—	—	77	77	—
Total loans	$ 1,259	$ 89	$ 2,487	$ 3,835	$ 333,969	$ 337,804	$ —

The following tables provide certain information related to the credit quality of the loan portfolio.

Credit Quality Indicators as of September 30, 2013 (in thousands)

Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Grade:						
Pass	$ 235,935	$ 74,662	$ 4,635	$ 19,710	$ 159	$ 335,101
Special Mention	—	—	—	5,584	—	5,584
Substandard	—	8,213	—	—	—	8,213
Total	$ 235,935	$ 82,875	$ 4,635	$ 25,294	$ 159	$ 348,898

Credit Quality Indicators as of December 31, 2012 (in thousands)

Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Grade:						
Pass	$ 221,794	$ 74,040	$ 841	$ 24,122	$ 77	$ 320,874
Special Mention	2,553	505	—	—	—	3,058
Substandard	3,953	7,767	—	2,152	—	13,872
Total	$ 228,300	$ 82,312	$ 841	$ 26,274	$ 77	$ 337,804

The following table sets forth the composition of our nonaccrual loans at the dates indicated.

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NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Loans Receivable on Nonaccrual Status as of September 30, 2013 and December 31, 2012 (in thousands)

	2013	2012
Residential real estate-Multi-family	$—	$1,477
Non-residential real estate	2,310	2,480
Total	$2,310	$3,957

The following table shows the breakdown of loans modified for the periods indicated:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
(dollars in thousands)	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Real estate loans:						
Multi-family	0	$ —	$ —	1	$ 307	$ 307
Non-residential	0	—	—	3	3,253	3,253
Total	0	$ —	$ —	4	$ 3,560	$ 3,560

The multi-family mortgage loan had an original interest rate of 6.75% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

Two non-residential mortgage loans had an original interest rate of 4.00% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

One non-residential mortgage loan had an original interest rate of 4.00% with an amortization of 30 years. The Company reduced the interest rate and converted the monthly payments to interest only for nineteen months and then amortizing for 30 years, with a balloon payment after two years from the modification date.

(dollars in thousands)	Three Months Ended September 30, 2012 Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Nine Months Ended September 30, 2012 Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Real estate:						
Multi-family	0	$ —	$ —	2	$ 1,900	$ 1,900
Non-residential	0	—	—	4	10,500	10,500
Total	0	$ —	$ —	6	$ 12,400	$ 12,400

The two multi-family mortgage loans had an interest rate of 5% with an amortization of 30 years that was modified to an interest only rate of 2.5% for the first six months of 2012.

One of the non-residential loans had an interest rate of 7% that was modified to 2%, plus monthly modified net income of the property. The other three non-residential loans had an interest rate of 6.125% that was modified to 5%, with interest paid in advance for two years from the date of modification. These three loans have been performing according to the terms of the modification.

As of September 30, 2013, none of the loans that were modified during the previous twelve months had defaulted in the three and nine month periods ended September 30, 2013.

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NOTE 8 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment. Similar to ASU 2011-08, Intangibles - Goodwill and Other (Topic 250) - Testing Goodwill for Impairment.* ASU 2012-02 addresses the growing cost and complexity of performing an analysis to evaluate indefinite-lived intangible assets (other than goodwill) for impairment. This ASU introduces qualitative factors which would simplify the analysis if facts and circumstances make it more-likely-than-not that impairment would not exist. Rather than requiring a purely quantitative impairment test, the ASU provides entities with the option to first examine qualitative factors to make this determination. Factors to be considered would include, but are not limited to:

- Increases in interest rates, salaries, or other operating expenses, which would have a negative impact on future earnings or cash flows;
- Recent financial performance and cash flow trends;
- Aspects of the legal and regulatory environment which are expected to impact future cash flows, such as the Dodd-Frank Act;
- Management turnover;
- Economic and industry conditions.

Entities are required by the guidance to consider both positive and negative impacts of such factors before determining whether it is more-likely-than-not (i.e. greater than 50% probability) that the indefinite-lived intangible asset is impaired. It should be noted that the qualitative portion of the analysis is optional for all issuers.

This ASU is effective for impairment tests performed during fiscal years beginning after September 15, 2012, and may be early adopted if the entity's financial statements for the most recent fiscal or interim period have not yet been issued. The Company adopted this guidance effective January 1, 2013. The adoption had no material effect on the Company's financial statements.

ASU 2013-02: *Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The objective of this ASU is to improve the reporting of reclassifications out of accumulated other comprehensive income. This ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income, by component, on the respective line items in the income statement if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. Reclassifications that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period are required to be cross-referenced to other U.S. GAAP disclosures that provide additional detail about those amounts. This is the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account rather than directly to income or expense in the same reporting period. For example, some portion of net periodic pension cost is immediately reported in net income, but other portions may be capitalized to an asset balance such as fixed assets or inventory. An entity with significant defined benefit pension costs reclassified out of accumulated other comprehensive income but not to net income in its entirety in the same reporting period should identify the amount of each pension cost component reclassified out of accumulated other comprehensive income and make reference to the relevant pension cost disclosure that provides greater detail about these reclassifications.

The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income.

The provisions of this ASU are effective for public entities prospectively for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The adoption had no material effect on the Company’s financial statements.

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NOTE 9 – DIVIDEND RESTRICTION

NorthEast Community Bancorp MHC (the "MHC") held 7,273,750 shares, or 57.5%, of the Company's issued and outstanding common stock, and the minority public shareholders held 42.5% of outstanding stock, at September 30, 2013. The MHC filed notice with, and received approval from, the Federal Reserve Bank of Philadelphia to waive its right to receive cash dividends for the period from November 9, 2012 through November 9, 2013.

The MHC has waived receipt of all past dividends paid by the Company through September 30, 2013, with the exception of the dividend for the quarter ended June 30, 2012. Because the MHC determined not to waive receipt of the dividend for the quarter ended June 30, 2012, the MHC received $218,000 in dividends in August 2012. The dividends waived are considered as a restriction on the retained earnings of the Company. As of September 30, 2013 and December 31, 2012, the aggregate retained earnings restricted for cash dividends waived were $5,019,000 and $4,364,000, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area, changes in real estate market values in the Company's market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses to be a critical accounting policy.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation.

Due to the conversion of the Bank to a New York State-chartered savings bank on June 29, 2012, the Federal Deposit Insurance Corporation (“FDIC”) and the New York State Department of Financial Services (“NYS”) are now the Bank’s primary regulators. As such, the FDIC and NYS, as an integral part of their examination process, periodically review our allowance for loan losses. The FDIC and NYS could require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examinations. A large loss or a series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see Note 1 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Intangibles – Goodwill and Other. Accounting Standard Codification (ASC) Topic 350, *Intangibles – Goodwill and Other,* requires that goodwill is not amortized to expense, but rather that it be assessed or tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. The Company recorded goodwill of $1.3 million in connection with the Hayden Financial Group acquisition in 2007. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight line method over the estimated useful lives of ten years.

The Company identified an impairment on its outstanding goodwill as a result of its most recent testing conducted in December 2012. As a result, the Company recorded an impairment charge of $227,000 in 2012. During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment of $227,000 previously recorded in 2012 was necessary. As a result, the Company recognized an additional impairment charge of $334,000 during the second quarter of 2013. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Third Quarter Performance Highlights

The Company's earnings for the quarter ended September 30, 2013 increased by $1.4 million compared to the same period in 2012 primarily due to a credit to the allowance for loan losses in the 2013 period and a decrease in non-interest expenses, partially offset by a decrease in net interest income, a decrease in non-interest income, and an increase in the provision (benefit) for income taxes. The credit to the allowance for loan losses in 2013 was due to a decrease in the balance of non-performing loans.

Non-performing loans decreased by $1.7 million, or 41.6%, to $2.3 million as of September 30, 2013 from $4.0 million as of December 31, 2012. The decrease in non-performing loans was due to the identification, monitoring, and resolution of several non-performing loans that were paid-off or became performing as of, or prior to, September 30, 2013. We will continue to monitor our loan portfolio closely and adjust the level of allowance for loan losses appropriately as updated information becomes available.

The decrease in non-interest expense was due primarily to a decrease in expenses related to salaries and employee benefits in 2013 as the Company continues its efforts to control such expenses by reducing staff in various departments, including the mortgage brokerage department, the wealth management department, and branch operations.

Our interest rate spread decreased to 3.45% for the three months ended September 30, 2013 from 3.93% for the three months ended September 30, 2012 and our net interest margin decreased to 3.69% for the three months ended September 30, 2013 from 4.17% for the three months ended September 30, 2012.

Due to market conditions, we discontinued purchasing participation interests in construction loans in 2009. In 2012, we commenced originating construction loans secured by multi-family or non-residential properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers. Recently, we have expanded our construction lending department and currently expect that our origination of construction loans for multi-family, mixed-use and non-residential buildings will increase.

Comparison of Financial Condition at September 30, 2013 and December 31, 2012

Total assets decreased by $11.1 million, or 2.5%, to $433.1 million at September 30, 2013 from $444.2 million at December 31, 2012. The decrease in total assets was due to decreases of $18.6 million in cash and cash equivalents, $2.9 million in securities held-to-maturity, $731,000 in other assets, $481,000 in Federal Home Loan Bank of New York ("FHLB") stock, $450,000 in other real estate owned, $517,000 in premises and equipment, and $334,000 in goodwill, partially offset by increases of $11.7 million in loans receivable, net, $747,000 in certificates of deposits at other financial institutions, $480,000 in bank owned life insurance, and $116,000 in accrued interest receivable. The decrease in total liabilities primarily resulted from decreases of $10.0 million in FHLB advances and $2.2 million in deposits, partially offset by an increase of $365,000 in advance payments by borrowers for taxes and insurance.

Cash and cash equivalents decreased by $18.6 million, or 37.9%, to $30.6 million at September 30, 2013 from $49.2 million at December 31, 2012 due primarily to the above mentioned increases in loans receivable, certificates of deposits at other financial institutions, and advance payments by borrowers for taxes and insurance, net of decreases in securities held-to-maturity, FHLB stock, deposits, and FHLB advances.

Securities held-to-maturity decreased by $3.0 million, or 24.6%, to $9.0 million at September 30, 2013 from $12.0 million at December 31, 2012 due primarily to repayments of $3.0 million. Certificates of deposits at other financial institutions increased by $747,000, or 187.2%, to $1.1 million at September 30, 2013 from $399,000 at December 31, 2012 due to the purchase of four certificates of deposits.

Loans receivable, net, increased by $11.7 million, or 3.5%, to $345.5 million at September 30, 2013 from $333.8 million at December 31, 2012 due primarily to loan originations totaling $48.8 million which exceeded loan repayments and charge-offs totaling $37.1 million. FHLB stock decreased by $481,000, or 35.5%, to $874,000 at September 30, 2013 from $1.4 million at December 31, 2012 due primarily to a decrease in the amount of FHLB stock that we are required to hold as a result of decreases in FHLB advances.

Bank owned life insurance increased by $480,000, or 2.4%, to $20.3 million at September 30, 2013 from $19.9 million at December 31, 2012 due to accrued earnings during 2013. Real estate owned decreased by $450,000, or 10.5%, to $3.8 million at September 30, 2013 from $4.3 million at December 31, 2012 due to the sale of a foreclosed property. Premises and equipment decreased by $517,000, or 4.0%, to $12.4 million at September 30, 2013 from $12.9 million at December 31, 2012 due primarily to depreciation. Other assets decreased by $731,000, or 9.3%, to $7.1 million at September 30, 2013 from $7.8 million at December 31, 2012 due to a refund of the FDIC prepaid insurance and reductions in current and deferred tax assets and prepaid insurance.

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Deposits decreased by $2.2 million, or 0.7%, to $316.0 million at September 30, 2013 from $318.1 million at December 31, 2012. The decrease in deposits was primarily attributable to decreases of $1.1 million in non-interest bearing accounts, $833,000 in regular savings accounts, and $370,000 in NOW and money market accounts, partially offset by an increase of $173,000 in certificates of deposits.

Advance payments by borrowers for taxes and insurance increased by $365,000, or 10.4%, to $3.9 million at September 30, 2013 from $3.5 million at December 31, 2012 due primarily to an increase in the mortgage loan portfolio. The increase in the mortgage loan portfolio was due to increases of $4.7 million, or 11.2%, in the mixed-use mortgage loan portfolio to $46.6 million at September 30, 2013 from $41.9 million at December 31, 2012 and $3.8 million, or 451.1%, in the construction mortgage loan portfolio to $4.6 million at September 30, 2013 from $841,000 at December 31, 2012.

FHLB advances decreased by $10.0 million, or 66.7%, to $5.0 million at September 30, 2013 from $15.0 million at December 31, 2012 due primarily to the maturity and repayment of certain FHLB advances.

Stockholders' equity increased by $783,000 to $104.6 million at September 30, 2013, from $103.8 million at December 31, 2012. This increase was primarily the result of comprehensive income of $1.1 million and the amortization of $118,000 for the ESOP for the period, partially offset by cash dividends declared of $453,000.

Comparison of Operating Results for the Three Months Ended September 30, 2013 and 2012

General. Earnings increased by $1.4 million, or 138.1%, to net income of $381,000 for the quarter ended September 30, 2013, from a net loss of $1.0 million for the quarter ended September 30, 2012. The increase was primarily the result of a credit to the allowance for loan losses of $191,000 during the 2013 period compared to a provision for loan losses of $1.9 million in the 2012 period and a decrease of $1.0 million in non-interest expenses, offset by a decrease of $583,000 in net interest income, a decrease of $230,000 in non-interest income, and an increase of $991,000 in income taxes.

Net Interest Income. Net interest income decreased by $583,000, or 14.0%, to $3.6 million for the three months ended September 30, 2013 from $4.2 million for the three months ended September 30, 2012. The decrease in net interest income resulted primarily from a decrease of $561,000 in interest income coupled with an increase of $22,000 in interest expense.

The net interest spread decreased by 48 basis points to 3.45% for the three months ended September 30, 2013 from 3.93% for the three months ended September 30, 2012. The net interest margin decreased by 48 basis points between these periods from 4.17% for the quarter ended September 30, 2012 to 3.69% for the quarter ended September 30, 2013. The decrease in the interest rate spread and the net interest margin in the third quarter of 2013 compared to the same period in 2012 was due to a decrease in the yield on our interest-earning assets coupled with an increase in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets decreased by 44 basis points to 4.51% for the three months ended September 30, 2013 from 4.95% for the three months ended September 30, 2012 and the cost of our interest-bearing liabilities increased by 4 basis points to 1.06% for the three months ended September 30, 2013 from 1.02% for the three months ended September 30, 2012. The decrease in the yield on our interest-earning assets was due to decreases in the yield on loans receivable, securities, and other interest-earning assets. The increase in the cost of our interest-bearing liabilities was due to the offering of competitive interest rates to generate deposits in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012, offset by the our decision to reduce the interest rates offered on our deposits during the second quarter of 2013.

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2013 and 2012.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$339,682	$ 4,304	5.07 %	$353,314	$ 4,817	5.45 %
Securities (including FHLB stock)	10,629	72	2.75	15,176	116	3.06
Other interest-earning assets	38,483	3	0.02	30,822	7	0.09
Total interest-earning assets	388,794	4,379	4.51	399,312	4,940	4.95
Allowance for loan losses	(4,203)			(3,828)		
Non-interest-earning assets	48,797			42,841		
Total assets	$433,388			$438,325		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	$63,666	$ 60	0.38 %	$72,713	$ 63	0.35 %
Savings and club accounts	82,630	112	0.54	87,541	117	0.53
Certificates of deposit	147,862	577	1.56	127,736	454	1.42
Total interest-bearing deposits	294,158	749	1.02	287,990	634	0.88
Borrowings	5,000	46	3.68	15,000	139	3.71
Total interest-bearing liabilities	299,158	795	1.06	302,990	773	1.02
Noninterest-bearing demand	22,769			20,806		
Other liabilities	6,814			7,087		
Total liabilities	328,741			330,883		
Stockholders’ equity	104,647			107,442		
Total liabilities and Stockholders’ equity	$433,388			$438,325		
Net interest income		$ 3,584			$ 4,167	
Interest rate spread			3.45 %			3.93 %
Net interest margin			3.69 %			4.17 %
Net interest-earning assets	$89,636			$96,322		
Interest-earning assets to interest-bearing liabilities	129.96 %			131.79 %		

Total interest income decreased by $561,000, or 11.4%, to $4.4 million for the three months ended September 30, 2013, from $4.9 million for the three months ended September 30, 2012. Interest income on loans decreased by $513,000, or 10.6%, to $4.3 million for the three months ended September 30, 2013 from $4.8 million for the three months ended September 30, 2012. The decrease was primarily the result of a decrease of 38 basis points in the average yield on loans to 5.07% for the three months ended September 30, 2013 from 5.45% for the three months ended September 30, 2012. The decrease in interest income and the average yield on loans was also due to the pay-off of numerous higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of numerous mortgage loans in our loan portfolio. This resulted in a decrease of $13.6 million, or 3.9%, in the average balance of the loan portfolio to $339.7 million for the three months ended September 30, 2013 from $353.3 million for the three months ended September 30, 2012 as repayments outpaced originations and charge-offs, net of recoveries.

Interest income on securities decreased by $44,000, or 37.9%, to $72,000 for the three months ended September 30, 2013 from $116,000 for the three months ended September 30, 2012. The decrease was primarily due to a decrease of $4.5 million, or 30.0%, in the average balance of securities to $10.6 million for the three months ended September 30, 2013 from $15.2 million for the three months ended September 30, 2012. The decrease in the average balance was due to the principal repayments on investment securities and a decrease in FHLB New York stock. The decrease in interest income on securities was also due to a decrease of 31 basis points in the average yield on securities to 2.75% for the three months ended September 30, 2013 from 3.06% for the three months ended September 30, 2012. The decline in the yield was due to the re-pricing of the yield of our adjustable rate investment securities and a decrease in FHLB stock yield from 4.5% at September 30, 2012 to 4.0% at September 30, 2013.

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Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by $4,000, or 57.1% to $3,000 for the three months ended September 30, 2013 from $7,000 for the three months ended September 30, 2012. The decrease was primarily due to a decrease of 7 basis points in the average yield on other interest-earning assets to 0.02% for the three months ended September 30, 2013 from 0.09% for the three months ended September 30, 2012, offset by an increase of $7.7 million, or 24.9%, in the average balance of interest-earning assets to $38.5 million for the three months ended September 30, 2013 from $30.8 million for the three months ended September 30, 2012. The decline in the yield was due to the maturity of higher yielding certificates of deposits at other financial institutions. The increase in the average balance of other interest-earning assets was due to decreases in the average balances of loans and increases in the average balances of deposits.

Total interest expense increased by $22,000, or 2.8%, to $795,000 for the three months ended September 30, 2013 from $773,000 for the three months ended September 30, 2012. Interest expense on deposits increased by $115,000, or 18.1%, to $749,000 for the three months ended September 30, 2013 from $634,000 for the three months ended September 30, 2012. The increase in the interest expense on deposits was a result of a shift in deposits from lower costing interest-bearing demand accounts and interest-bearing savings and club accounts to higher costing interest-bearing certificates of deposit. The increase in the interest expense on deposits was also a result of offering competitive interest rates to generate deposits in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012. These two factors resulted in an increase of 14 basis points in the average cost of deposits to 1.02% for the three months ended September 30, 2013 from 0.88% for the three months ended September 30, 2012. These two factors also resulted in an increase of $6.2 million, or 2.1%, in the average balance of interest bearing deposits to $294.2 million for the three months ended September 30, 2013 from $288.0 million for the three months ended September 30, 2012.

The interest expense of our interest-bearing demand deposits decreased by $3,000, or 4.8%, to $60,000 for the three months ended September 30, 2013 from $63,000 for the three months ended September 30, 2012. The decrease in interest expense in our interest-bearing demand deposits was due to a shift in deposits to higher costing interest-bearing certificates of deposits, offset by the offering of competitive interest rates to generate deposits in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012. This resulted in a decrease of $9.0 million, or 12.4%, in the average balance of our interest-bearing demand deposits to $63.7 million for the three months ended September 30, 2013 from $72.7 million for the three months ended September 30, 2012. This also resulted in a 3 basis point increase in the average interest cost to 0.38% for the three months ended September 30, 2013 from 0.35% for the three months ended September 30, 2012.

The interest expense of our interest-bearing savings and club deposits decreased by $5,000, or 4.3%, to $112,000 for the three months ended September 30, 2013 from $117,000 for the three months ended September 30, 2012. The decrease in interest expense in our interest-bearing savings and club deposits was due to a shift in deposits to higher costing interest-bearing certificates of deposits, offset by the offering of competitive interest rates to generate deposits in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012. This resulted in a decrease of $4.9 million, or 5.6%, in the average balance of our interest-bearing savings and club deposits to $82.6 million for the three months ended September 30, 2013 from $87.5 million for the three months ended September 30, 2012. This also resulted in a 1 basis point increase in the average interest cost to 0.54% for the three months ended September 30, 2013 from 0.53% for the three months ended

September 30, 2012.

The interest expense of our interest-bearing certificates of deposit increased by $123,000, or 27.1%, to $577,000 for the three months ended September 30, 2013 from $454,000 for the three months ended September 30, 2012. The increase in interest expense in our interest-bearing certificates of deposit was due to offering competitive interest rates in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012. This resulted in an increase of $20.1 million, or 15.8%, in the average balance of our interest-bearing certificates of deposit to $147.9 million for the three months ended September 30, 2013 from $127.7 million for the three months ended September 30, 2012. The increase in interest expense of our interest-bearing certificates of deposit was also due to a 14 basis point increase in the average interest cost to 1.56% for the three months ended September 30, 2013 from 1.42% for the three months ended September 30, 2012.

Interest expense on borrowings decreased by $93,000, or 66.9%, to $46,000 for the three months ended September 30, 2013 from $139,000 for the three months ended September 30, 2012. The decrease was primarily due to a decrease of $10.0 million, or 66.7%, in the average balance of borrowed money to $5.0 million for the three months ended September 30, 2013 from $15.0 million for the three months ended September 30, 2012. The decrease in interest expense on borrowings was also due to a decrease of 3 basis points in the cost of borrowed money to 3.68% for the three months ended September 30, 2013 from 3.71% for the three months ended September 30, 2012 due primarily to the maturity and repayment of higher costing FHLB advances from 2012 to 2013.

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Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three months ended September 30, 2013 and 2012.

	Three Months Ended September 30,	
	2013	2012
	(Dollars in thousands)	
Allowance at beginning of period	$ 4,205	$ 3,867
Provision (credit) for loan losses	(191)	1,912
Charge-offs	—	(85)
Recoveries	—	11
Net charge-offs	—	(74)
Allowance at end of period	$ 4,014	$ 5,705
Allowance to non-performing loans	173.78 %	40.70 %
Allowance to total loans outstanding at the end of the period	1.15 %	1.65 %
Net charge-offs (recoveries) to average loans outstanding during the period	—	2.00 %

The allowance to non-performing loans ratio increased to 173.78% at September 30, 2013 from 40.70% at September 30, 2012 due primarily to a decrease in non-performing loans to $2.3 million at September 30, 2013 from $14.0 million at September 30, 2012, offset by a decrease in the allowance for loan losses. The decrease in non-performing loans was due to the identification, monitoring and resolution of several non-performing loans that were paid-off or became performing as of, or prior to, September 30, 2013.

The allowance for loan losses was $4.01 million at September 30, 2013, $4.65 million at December 31, 2012, and $5.71 million at September 30, 2012. We recorded a credit for loan losses of ($191,000) for the three month period ended September 30, 2013 compared to provision for loan losses of $1.9 million for the three month period ended September 30, 2012. The reduction in the provision for loan losses was due to a decrease in the amount of non-performing loans in the loan portfolio.

We had no charge-offs during the three months ended September 30, 2013 compared to charge-offs of $85,000 during the three months ended September 30, 2012. We recorded no recoveries during the three months ended September 30, 2013 compared to recoveries of $11,000 during the three months ended September 30, 2012.

Non-interest Income. Non-interest income decreased by $230,000, or 32.8%, to $472,000 for the three months ended September 30, 2013 from $702,000 for the three months ended September 30, 2012. The decrease was primarily due to a $171,000 decrease in other loan fees and service charges, primarily due to a decrease of $147,000 in mortgage broker fee income, and a $59,000 decrease in fee income generated by our wealth management division. The decrease in mortgage broker fee income was due to the elimination in January 2013 of the 1-4 family residential mortgage loan brokerage department and the termination of the related staff.

Non-interest Expense. Non-interest expense decreased by $1.1 million, or 22.5%, to $3.7 million for the three months ended September 30, 2013 from $4.8 million for the three months ended September 30, 2012. The decrease resulted primarily from decreases of $692,000 in salaries and employee benefits, $305,000 in other non-interest expense, $81,000 in equipment expense, $68,000 in advertising expense, $36,000 in outside data processing expense, and $23,000 in occupancy expense, partially offset by increases of $64,000 in FDIC insurance expense and $59,000 in real estate owned expenses.

Salaries and employee benefits, which represented 50.0% of the Company’s non-interest expense during the quarter ended September 30, 2013, decreased by $692,000, or 27.1%, to $1.9 million in 2013 from $2.6 million in 2012 due to a decrease in the number of full time equivalent employees to 102 at September 30, 2013 from 126 at September 30, 2012. The decrease in full time employees was due to the Company’s efforts to control the increase in salaries and employee benefits by reducing staff in various departments, including the mortgage brokerage department, the wealth management department, and branch operations from September 30, 2012 to September 30, 2013. The decrease in salaries and employee benefits was also due to the resignation of the former chief financial officer in July 2013 that resulted in the reversal of certain forfeited benefits.

Other non-interest expense decreased by $305,000, or 25.0%, to $914,000 in 2013 from $1.2 million in 2012 due mainly to decreases of $170,000 in recruitment expenses related to the hiring of additional personnel in the Company’s Headquarters and Massachusetts locations, $111,000 in directors, officers and employee expenses, $32,000 in regulatory assessments, $16,000 in office supplies and stationery, $14,000 in legal fees, and $8,000 in service contracts. These decreases were partially offset by increases of $22,000 in director’s compensation, $15,000 in telephone expenses, and $14,000 in audit and accounting fees.

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Equipment expense decreased by $81,000, or 37.0%, to $138,000 in 2013 from $219,000 in 2012 and advertising expense decreased by $36,000, or 84.0%, to $13,000 in 2013 from $81,000 in 2012 due to decreases in the purchases of additional equipment and a decrease in marketing efforts in order to contain expenses. Outside data processing expense decreased by $36,000, or 13.6%, to $229,000 in 2013 from $265,000 in 2012 due to a one-time correction in billings that reduced data processing expense and a reduction in one-time fees for new services from the Company's data processing vendors. Occupancy expense decreased by $23,000, or 6.1%, to $352,000 in 2013 from $375,000 in 2012 due to efforts to contain expenses.

FDIC insurance expense increased by $64,000, or 70.3%, to $155,000 in 2013 from $91,000 in 2012 due to an increase in the FDIC risk assessment of the Company. Real estate owned expense increased by $59,000 due to operating expenses related to one foreclosed property totaling $3.8 million as of September 30, 2013 compared to no real estate owned as of September 30, 2012.

Income Taxes. Income taxes increased by $991,000, or 117.0%, to an expense of $144,000 for the three months ended September 30, 2013 from a benefit of $847,000 for the three months ended September 30, 2012. The increase resulted primarily from a $2.4 million increase in pre-tax income in 2013 compared to 2012. The effective tax rate was an expense of 27.4% for the three months ended September 30, 2013 and a benefit of 45.9% for the three months ended September 30, 2012.

Comparison of Operating Results For The Nine Months Ended September 30, 2013 and 2012

General. Earnings increased by $1.5 million, or 300.6%, to net income of $969,000 for the nine months ended September 30, 2013 from a net loss of $483,000 for the nine months ended September 30, 2012. The increase was primarily the result of a credit to the allowance for loan losses of $554,000 during the 2013 period compared to a provision for loan losses of $2.0 million in the 2012 period and a decrease of $960,000 in non-interest expenses, offset by a decrease of $724,000 in net interest income, a decrease of $351,000 in non-interest income, and an increase of $1.0 million in income taxes.

Net Interest Income. Net interest income decreased by $724,000, or 5.9%, to $11.5 million for the nine months ended September 30, 2013 from $12.2 million for the nine months ended September 30, 2012. The decrease in net interest income resulted primarily from a decrease of $1.2 million in interest income that exceeded a decrease of $471,000 in interest expense.

The net interest spread increased by 26 basis points to 3.69% for the nine months ended September 30, 2013 from 3.43% for the nine months ended September 30, 2012. The net interest margin increased by 25 basis points between these periods from 3.69% for the nine months ended September 30, 2012 to 3.94% for the nine months ended September 30, 2013. The increase in the interest rate spread and the net interest margin in 2013 compared to 2012 was due to an increase in the yield on our interest-earning assets coupled with a decrease in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets increased by 21 basis points to 4.76% for the nine months ended September 30, 2013 from 4.55% for the nine months ended September 30, 2012 and the cost of our interest-bearing liabilities decreased by 5 basis points to 1.07% for the nine months ended September 30, 2013 from 1.12% for the nine months ended September 30, 2012. The increase in the yield on our interest-earning assets was due to a decrease in other interest-earning assets, resulting in a shift in the composition of interest-earning assets whereby higher yielding loans receivable represented a larger percentage of total interest-earning assets for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The increase in the yield of our interest-earning assets was also due to a decrease in our non-performing assets by $11.7 million, or 83.5%, to $2.3 million as of September 30, 2013 from $14.0 million as of September 30, 2012. The decrease in the cost of our interest-bearing liabilities was due to our decision to reduce interest rates offered on our deposits.

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2013 and 2012.

	Nine Months Ended September 30,					
	2013			2012		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$342,571	$ 13,627	5.30 %	$356,695	$ 14,678	5.49 %
Securities	11,772	255	2.89	16,277	379	3.10
Other interest-earning assets	34,821	9	0.03	68,791	29	0.06
Total interest-earning assets	389,164	13,891	4.76	441,763	15,086	4.55
Allowance for loan losses	(4,403)			(5,891)		
Non-interest-earning assets	49,606			39,421		
Total assets	$434,367			$475,293		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	$62,217	$ 163	0.35 %	$101,174	$ 442	0.58 %
Savings and club accounts	82,638	331	0.53	88,977	445	0.67
Certificates of deposit	147,755	1,713	1.55	135,213	1,564	1.54
Total interest-bearing deposits	292,610	2,207	1.01	325,364	2,451	1.00
Borrowings	7,070	192	3.62	16,355	419	3.42
Total interest-bearing liabilities	299,680	2,399	1.07	341,719	2,870	1.12
Noninterest-bearing demand	22,331			18,460		
Other liabilities	7,504			7,580		
Total liabilities	329,515			367,759		
Stockholders' equity	104,852			107,534		
Total liabilities and Stockholders' equity	$434,367			$475,293		
Net interest income		$ 11,492			$ 12,216	
Interest rate spread			3.69 %			3.43 %
Net interest margin			3.94 %			3.69 %
Net interest-earning assets	$89,484			$100,044		
Average interest-earning assets to average interest-bearing liabilities	129.86 %			129.28 %		

Total interest income decreased by $1.2 million, or 7.9%, to $13.9 million for the nine months ended September 30, 2013, from $15.1 million for the nine months ended September 30, 2012. Interest income on loans decreased by $1.1

million, or 7.2%, to $13.6 million for the nine months ended September 30, 2013 from $14.7 million for the nine months ended September 30, 2012 as a result of a decrease of 19 basis points in the average yield on loans to 5.30% for the nine months ended September 30, 2013 from 5.49% for the nine months ended September 30, 2012. The decrease in interest income and the average yield on loans was due to the pay-off of higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of mortgage loans in our loan portfolio. The decrease in interest income was also due to a decrease of $14.1 million, or 4.0%, in the average balance of the loan portfolio to $342.6 million for the nine months ended September 30, 2013 from $356.7 million for the nine months ended September 30, 2012 as repayments outpaced originations.

Interest income on securities decreased by $124,000, or 32.7%, to $255,000 for the nine months ended September 30, 2013 from $379,000 for the nine months ended September 30, 2012. The decrease was primarily due to a decrease of $4.5 million, or 27.7%, in the average balance of securities to $11.8 million for the nine months ended September 30, 2013 from $16.3 million for the nine months ended September 30, 2012. The decrease in the average balance was due to principal repayments on investment securities and a decrease in FHLB New York stock. The decrease in interest income on securities was also due to a decrease of 21 basis points in the average yield on securities to 2.89% for the nine months ended September 30, 2013 from 3.10% for the nine months ended September 30, 2012. The decline in the yield was due to the re-pricing of the yield of our adjustable rate investment securities and a decrease in FHLB stock yield from 4.5% at September 30, 2012 to 4.0% at September 30, 2013.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by $20,000, or 69.0%, to $9,000 for the nine months ended September 30, 2013 from $29,000 for the nine months ended September 30, 2012. The decrease was primarily the result of a decrease of $34.0 million, or 49.4%, in the average balance of other interest-earning assets to $34.8 million for the nine months ended September 30, 2013 from $68.8 million for the nine months ended September 30, 2012. The decrease in the average balance of other interest-earning assets was due to decreases in the average balance of cash equivalents as a result of decreases in the average balance of deposits. The decrease in interest income on other interest-earning assets was also due to a decrease of 3 basis points in the yield to 0.03% for the nine months ended September 30, 2013 from 0.06% for the nine months ended September 30, 2012. The decline in the yield was due to the maturity of higher yielding certificates of deposits at other financial institutions.

Total interest expense decreased by $471,000, or 16.4%, to $2.4 million for the nine months ended September 30, 2013 from $2.9 million for the nine months ended September 30, 2012. Interest expense on deposits decreased by $244,000, or 10.0%, to $2.2 million for the nine months ended September 30, 2013 from $2.5 million for the nine months ended September 30, 2012. During this same period, the average interest cost of deposits increased by 1 basis point to 1.01% for the nine months ended September 30, 2013 from 1.00% for the nine months ended September 30, 2012.

The decrease in interest expense on deposits was due to a decrease of $32.8 million, or 10.1%, in the average balance of interest-bearing deposits to $292.6 million for the nine months ended September 30, 2013 from $325.4 million for the nine months ended September 30, 2012. The decrease in the average balance of interest-bearing deposits was due to decreases in the average balance of our interest-bearing demand deposits and interest-bearing savings and club accounts, offset by increases in the average balance of our interest-bearing certificates of deposits. The decrease in the average balances of our interest-bearing demand deposits and interest-bearing savings and club accounts was due to our decision to reduce the interest rates offered on these deposits. The increase in the average balance of our interest-bearing certificates of deposit was due to offering competitive interest rates in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012.

The interest expense of our interest-bearing demand deposits decreased by $279,000, or 63.1%, to $163,000 for the nine months ended September 30, 2013 from $442,000 for the nine months ended September 30, 2012. The decrease in interest expense in our interest-bearing demand deposits was due to our decision to reduce the interest rates on interest-bearing demand deposits that resulted in a 23 basis point decrease in the average interest cost to 0.35% for the nine months ended September 30, 2013 from 0.58% for the nine months ended September 30, 2012. The decrease in interest expense on our interest-bearing demand deposits was also due to a decrease of $39.0 million, or 38.5%, in the average balance of our interest-bearing demand deposits to $62.2 million for the nine months ended September 30, 2013 from $101.2 million for the nine months ended September 30, 2012.

The interest expense of our interest-bearing savings and club deposits decreased by $114,000, or 25.6%, to $331,000 for the nine months ended September 30, 2013 from $445,000 for the nine months ended September 30, 2012. The decrease in interest expense in our interest-bearing savings and club deposits resulted from our decision to reduce the interest rates on interest-bearing savings and club deposits that resulted in a 14 basis point decrease in the average interest cost to 0.53% for the nine months ended September 30, 2013 from 0.67% for the nine months ended September 30, 2012. The decrease in interest expense on our interest-bearing savings and club deposits was also due to a decrease of $6.3 million, or 7.1%, in the average balance of our interest-bearing savings and club deposits to $82.6 million for the nine months ended September 30, 2013 from $89.0 million for the nine months ended September 30, 2012.

The interest expense of our interest-bearing certificates of deposit increased by $149,000, or 9.5%, to $1.7 million for the nine months ended September 30, 2013 from $1.6 million for the nine months ended September 30, 2012. The increase in interest expense in our interest-bearing certificates of deposit was due to an increase of $12.5 million, or 9.3%, in the average balance of our interest-bearing certificates of deposit to $147.8 million for the nine months ended September 30, 2013 from $135.2 million for the nine months ended September 30, 2012 and an increase of 1 basis point in the average interest cost to 1.55% for the nine months ended September 30, 2013 from 1.54% for the nine months ended September 30, 2012. The increase in the average balance of our interest-bearing certificates of deposit and the average interest cost was due to offering competitive interest rates in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012.

Interest expense on borrowings decreased by $227,000, or 54.2%, to $192,000 for the nine months ended September 30, 2013 from $419,000 for the nine months ended September 30, 2012. The decrease was primarily due to a decrease of $9.3 million, or 56.8%, in the average balance of borrowed money to $7.1 million for the nine months ended September 30, 2013 from $16.4 million for the nine months ended September 30, 2012. Offsetting the decrease in interest expense on borrowings, resulting from a decrease in the average balance, was an increase of 20 basis points in the cost of borrowed money to 3.62% for the nine months ended September 30, 2013 from 3.42% for the nine months ended September 30, 2012 due primarily to the maturity and repayment of lower costing FHLB advances from 2012 to 2013.

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Allowance for Loan Losses. The following table summarizes the activity in the allowance for loan losses for the nine months ended September 30, 2013 and 2012.

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in thousands)	
Allowance at beginning of period	$ 4,646	$ 7,397
Provision (credit) for loan losses	(554)	2,029
Charge-offs	(105)	(3,737)
Recoveries	27	16
Net charge-offs	(78)	(3,721)
Allowance at end of period	$ 4,014	$ 5,705

We recorded provisions (credit) for loan losses of ($554,000) and $2.0 million for the nine-month periods ended September 30, 2013 and 2012, respectively. We charged-off $105,000 against two non-performing non-residential mortgage loans during the nine months ended September 30, 2013 compared to charge-offs of $3.7 million against six non-performing multi-family mortgage loans, four non-performing non-residential mortgage loans, and one non-performing construction mortgage loan during the nine months ended September 30, 2012. We recorded recoveries of $27,000 during the nine months ended September 30, 2013 compared to recoveries of $16,000 during the nine months ended September 30, 2012.

Non-interest Income. Non-interest income decreased by $351,000, or 19.0%, to $1.5 million for the nine months ended September 30, 2013 from $1.8 million for the nine months ended September 30, 2012. The decrease was primarily due to a $144,000 decrease in fee income generated by our wealth management division, a $254,000 decrease in other loan fees and service charges, partially offset by a $33,000 increase in earnings on bank owned life insurance and a $5,000 increase in other non-interest income. The decrease in other loan fees and service charges was due to a decrease of $308,000 in mortgage broker fee income, offset by increases of $30,000 in commercial and industrial loan fee income and $27,000 in deposit and ATM fees. The decrease in mortgage broker fee income was due to the elimination in January 2013 of the 1-4 family residential mortgage loan brokerage department and the termination of the related staff.

Non-interest Expense. Non-interest expense decreased by $960,000, or 7.3%, to $12.3 million for the nine months ended September 30, 2013 from $13.2 million for the nine months ended September 30, 2012. The decrease resulted primarily from decreases of $731,000 in salaries and employee benefits, $725,000 in other non-interest expense, $151,000 in advertising expense, $108,000 in equipment expense, and $15,000 in FDIC insurance expense, partially offset by increases of $334,000 in impairment loss on goodwill, $318,000 in real estate owned expenses, $109,000 in occupancy expense, and $9,000 in outside data processing expense.

Salaries and employee benefits, which represented 50.5% of the Company's non-interest expense during the nine months ended September 30, 2013, decreased by $731,000, or 10.6%, to $6.2 million in 2013 from $6.9 million in 2012 due to a decrease in the number of full time equivalent employees to 102 at September 30, 2013 from 126 at September 30, 2012, offset by the staffing of the Framingham and Quincy, Massachusetts branch offices that opened during the latter part of the third quarter of 2012. The decrease in full time employees was due to the Company's efforts to control the increase in salaries and employee benefits by reducing staff in various departments, including the mortgage brokerage department, the wealth management department, and branch operations from September 30, 2012 to September 30, 2013. The decrease in salaries and employee benefits was also due to the resignation of the former chief financial officer in July 2013 that resulted in the reversal of certain forfeited benefits.

Other non-interest expense decreased by $725,000, or 20.8%, to $2.8 million in 2013 from $3.5 million in 2012 due mainly to decreases of $363,000 in recruitment expenses related to the hiring of additional personnel in the Company's Headquarters and Massachusetts locations in 2012, $348,000 in directors, officers and employee expenses, $85,000 in legal fees, $70,000 in regulatory assessments, $23,000 in office supplies, $22,000 in service contracts, $16,000 in donations, and $10,000 in postage expenses, partially offset by increases of $88,000 in audit and accounting fees, $72,000 in director's compensation, $44,000 in telephone expenses, and $6,000 in insurance expense.

Advertising expense decreased by $151,000, or 77.8%, to $43,000 in 2013 from $194,000 in 2012 and equipment expense decreased by $108,000, or 18.7%, to $469,000 in 2013 from $577,000 in 2012 due to efforts to contain cost that resulted in decreases in marketing efforts and decreases in the purchases of additional equipment. FDIC insurance expense decreased by $15,000, or 5.3%, to $268,000 in 2013 from $283,000 in 2012 due to a decrease in deposits, offset by an increase in the FDIC risk assessment of the Company.

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During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment of $227,000 previously recorded in 2012 was necessary. As a result, an additional impairment charge of $334,000 was recognized for the nine months ended September 30, 2013. The goodwill was recorded in connection with the Hayden Financial Group acquisition in 2007. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel. The Company did not have any impairment loss on goodwill for the nine months ended September 30, 2012.

Real estate owned expense increased by $318,000 due to operating expenses related to the addition of two foreclosed properties subsequent to September 30, 2012 and a loss of $51,000 on the sale of one of the real estate owned resulting in an increase in real estate owned to $3.8 million as of September 30, 2013 from no real estate owned as of September 30, 2012.

Occupancy expense increased by $109,000, or 11.1%, to $1.1 million in 2013 from $983,000 in 2012 due to the addition of the new Framingham and Quincy, Massachusetts branch offices and payment of arrearage cooperative assessments for the 23rd Street, New York branch office. Outside data processing expense increased by $9,000, or 1.2%, to $789,000 in 2013 from $780,000 in 2012 due to the addition of two new branch offices in the latter part of the third quarter of 2012 and additional services provided by the Company's data processing vendors, offset by a one-time correction in billings that reduced data processing expense.

Income Taxes. Income taxes increased by $1.0 million, or 142.2%, to an expense of $302,000 for the nine months ended September 30, 2013 from a benefit of $714,000 for the nine months ended September 30, 2012. The increase resulted primarily from a $2.5 million increase in pre-tax income in 2013 compared to 2012. The effective tax rate was an expense of 23.8% for the nine months ended September 30, 2013 and a benefit of 59.7% for the nine months ended September 30, 2012.

NON PERFORMING ASSETS

The following table provides information with respect to our non-performing assets at the dates indicated.

	At September 30, 2013	At December 31, 2012
	(Dollars in thousands)	
Non-accrual loans	$ 2,310	$ 3,957
Loans past due 90 days or more and accruing	—	—
Total nonaccrual and 90 days or more		

past due loans	2,310		3,957	
Other non-performing loans	—		—	
Total non-performing loans	2,310		3,957	
Real estate owned	3,821		4,271	
Total non-performing assets	6,131		8,228	
Accruing troubled debt restructurings	15,825		12,236	
Nonaccrual troubled debt restructurings	1,259		1,197	
Total troubled debt restructurings	17,084		13,433	
Less nonaccrual troubled debt restructurings in total nonaccrual loans	1,259		1,197	
Total troubled debt restructurings and non-performing assets	$ 21,956		$ 20,464	
Total non-performing loans to total loans	0.66	%	1.17	%
Total non-performing assets to total assets	1.42	%	1.85	%
Total non-performing assets and troubled debt restructurings to total assets	5.07	%	4.61	%

The non-accrual loans at September 30, 2013 consisted of four non-residential mortgage loans.

Non-performing loans decreased by $1.6 million, or 41.6%, to $2.3 million at September 30, 2013 from $4.0 million at December 31, 2012. The decrease in non-performing loans was due to the satisfaction of two non-accrual multi-family mortgage loans totaling $196,000 and the conversion from non-performing to performing status of three residential mortgage loans and one non-residential mortgage loan totaling $1.8 million, partially offset by the addition of one non-residential mortgage loan totaling $309,000.

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The non-accrual non-residential mortgage loans, net of charge-offs of $1.0 million, totaled $2.3 million at September 30, 2013 consisted primarily of the following mortgage loans:

(1) An outstanding balance of $810,000, net of a charge-off of $371,000, secured by a gasoline service station and car wash. The loan is classified as substandard. A foreclosure action is proceeding and we are evaluating the options available to us.

(2) An outstanding balance of $742,000, net of a charge-off of $234,000, secured by a medical office building. We classified this loan as substandard. The Company has commenced a foreclosure action and the Court has appointed a receiver who is collecting rent and managing the building. We are evaluating the options available to us.

Based on current appraisals and/or fair value analyses of these properties, the Company does not anticipate any losses beyond the amounts already charged off.

At September 30, 2013, we owned one foreclosed property with a net balance of $3.8 million consisting of an office building located in New Jersey. The Company’s managing agent is operating and marketing the building.

TROUBLED DEBT RESTRUCTURED LOANS

There were no loans modified during the three months ended September 30, 2013. There were four loans modified during the nine months ended September 30, 2013.

The multi-family mortgage loan that was modified had an original interest rate of 6.75% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

Two non-residential mortgage loans that were modified had an original interest rate of 4.00% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

One non-residential mortgage loan that was modified had an original interest rate of 4.00% with an amortization of 30 years. The Company reduced the interest rate and converted the monthly payments to interest only for nineteen months and then amortizing for 30 years, with a balloon payment after two years from the modification date.

As of September 30, 2013, none of the loans that were modified during the previous twelve months had defaulted in the three and nine month periods ended September 30, 2013.

The following tables show the activity in troubled debt restructured loans for the period indicated:

	Residential Real Estate	Nonresidential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2012	$ 6,444	$ 6,989	$ —	$ —	$ —	$13,433
Additions	315	3,376	—	—	—	3,691
Repayments	(34)	(6)	—	—	—	(40)
Balance - September 30, 2013	$ 6,725	$ 10,359	$ —	$ —	$ —	$17,084
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

There were no charge offs of loans classified as troubled debt restructurings in the three and nine months ended September 30, 2013.

Additions for the period consist of the aforementioned four mortgage loans that were modified, real estate taxes and similar items paid to protect the collateral position of the Company.

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The following tables show the activity in troubled debt restructured loans for the period indicated:

	Residential Real Estate	Nonresidential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2011	$ 9,886	$ 5,587	$ —	$ —	$ —	$15,473
Additions	1,259	11,707	—	—	—	12,966
Repayments	(2,748)	(4,637)	—	—	—	(7,385)
Balance - September 30, 2012	$ 8,397	$ 12,657	$ —	$ —	$ —	$21,054
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

There were charge offs of $1.8 million against loans classified as troubled debt restructurings in the three and nine months ended September 30, 2012.

Additions for the period consist of four non-residential mortgage loans and one residential mortgage loans that were modified, real estate taxes and similar items paid to protect the collateral position of the Company.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled $30.6 million at September 30, 2013 and consist primarily of interest-bearing deposits at other financial institutions and miscellaneous cash items. The Company can also borrow an additional $92.5 million from the FHLB of New York to provide additional liquidity.

At September 30, 2013, we had $41.5 million in loan commitments outstanding, consisting of $23.1 million in unused commercial and industrial loan lines of credit, $9.6 million of real estate loan commitments, $6.5 million in unused real estate equity lines of credit, $2.1 million in unused loans in process, $197,000 in commercial and industrial loan commitments, and $133,000 in consumer lines of credit. Certificates of deposit due within one year of September 30, 2013 totaled $69.5 million. This represented 46.9% of certificates of deposit at September 30, 2013. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we paid on the certificates of deposit due on or before September 30, 2013. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At September 30, 2013, we had the ability to borrow $92.5 million, net of $5.0 million in outstanding advances, from the FHLB of New York. At September 30, 2013, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and for the repurchase, if any, of its shares of common stock. At September 30, 2013, the Company had liquid assets of $13.7 million.

Capital Management. The Bank is subject to various regulatory capital requirements administered by the FDIC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2013, the Bank exceeded all regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

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Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the three and nine months ended September 30, 2013 and the year ended December 31, 2012, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Qualitative Aspects of Market Risk. The Company's most significant form of market risk is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread.

Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Retail Banking Officer, Chief Lending Officer – New England Region, and Chief Lending Officer – Mid-Atlantic Region, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Quantitative Aspects of Market Risk. We use an interest rate sensitivity analysis prepared by an independent third party to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in our net portfolio value at September 30, 2013 that would occur in the event of an immediate change in interest rates based on the independent third party assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
300	$103,988	$(15,356)	-12.87 %	24.96%	(182) bp
200	109,207	(10,137)	-8.49 %	25.67%	(111) bp
100	114,822	(4,522)	-3.79 %	26.36%	(42) bp
0	119,344		—	26.78%	
(100)	125,081	5,737	4.81 %	27.47%	69 bp

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We use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.

Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Item 4. Controls and Procedures

The Company’s management, including the Company’s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company’s “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the “SEC”) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company’s internal control over financial reporting during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 31, 2011 a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the "Court"), against the Company, the MHC and each of the directors of the Company and the MHC. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a "second-step" conversion of the MHC. As relief, the complaint requested, among other things, that the Company's board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company's motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second-step conversion. Stilwell asserted claims against the MHC, as majority shareholder of the Company, for breach of fiduciary duty and for aiding and abetting the directors' alleged breach of fiduciary duty. The Company filed a motion to dismiss on February 1, 2013. Stilwell filed his opposition on March 8, 2013, and the Company filed its reply brief on March 29, 2013. The Court held a hearing on the motion on June 12, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding that the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company's directors and the MHC to proceed.

The Company and Bank are also subject to claims and litigation that arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company and Bank in connection with such claims and litigation, it is the opinion of management that the disposition or ultimate determination of such claims and litigation will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

31.1	CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.0	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Northeast Community Bancorp, Inc.

Date: November 14, 2013 By: /s/ Kenneth A. Martinek
Kenneth A. Martinek
Chief Executive Officer

Date: November 14, 2013 By: /s/ Donald S. Hom
Donald S. Hom
Executive Vice President and Chief Financial Officer