BankFinancial CORP
Form 10-Q
October 26, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended September 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to
Commission File Number 0-51331

BANKFINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

Maryland	75-3199276
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

15W060 North Frontage Road, Burr Ridge, Illinois 60527
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (800) 894-6900
Not Applicable
(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	x
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date. At October 24, 2018, there were 16,996,173 shares of Common Stock, $0.01 par value, outstanding.

BANKFINANCIAL CORPORATION
Form 10-Q
September 30, 2018
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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	September 30, 2018	December 31, 2017
Assets		
Cash and due from other financial institutions	$ 12,473	$ 13,572
Interest-bearing deposits in other financial institutions	74,461	114,020
Cash and cash equivalents	86,934	127,592
Securities, at fair value	103,921	93,383
Loans receivable, net of allowance for loan losses: September 30, 2018, $8,103 and December 31, 2017, $8,366	1,267,787	1,314,651
Other real estate owned, net	985	2,351
Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost	8,026	8,290
Premises held-for-sale	—	5,667
Premises and equipment, net	24,473	24,856
Accrued interest receivable	4,974	4,619
Core deposit intangible	123	286
Bank owned life insurance	18,781	22,859
Deferred taxes	8,911	12,563
Other assets	7,569	8,441
Total assets	$ 1,532,484	$ 1,625,558
Liabilities		
Deposits		
Noninterest-bearing	$ 225,446	$ 234,354
Interest-bearing	1,070,324	1,105,697
Total deposits	1,295,770	1,340,051
Borrowings	21,232	60,768
Advance payments by borrowers for taxes and insurance	11,015	11,645
Accrued interest payable and other liabilities	12,384	15,460
Total liabilities	1,340,401	1,427,924
Stockholders' equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 17,206,303 shares issued at September 30, 2018 and 17,958,723 issued at December 31, 2017	172	179
Additional paid-in capital	141,230	153,811
Retained earnings	50,437	43,274
Accumulated other comprehensive income	244	370
Total stockholders' equity	192,083	197,634
Total liabilities and stockholders' equity	$ 1,532,484	$ 1,625,558

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data) - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans, including fees	$14,248	$ 13,345	$42,045	$ 39,061
Securities	627	389	1,637	1,095
Other	498	387	1,459	976
Total interest income	15,373	14,121	45,141	41,132
Interest expense				
Deposits	2,278	1,419	5,632	3,903
Borrowings	130	196	542	444
Total interest expense	2,408	1,615	6,174	4,347
Net interest income	12,965	12,506	38,967	36,785
Recovery of loan losses	(23)	(225)	(258)	(15)
Net interest income after recovery of loan losses	12,988	12,731	39,225	36,800
Noninterest income				
Deposit service charges and fees	1,003	1,018	2,970	2,964
Loan fee income	71	89	231	212
Commercial mortgage brokerage fees	12	—	138	—
Residential mortgage banking fees	34	41	88	172
Loss on sales of equity securities	—	—	(14)	—
Gain on sale of premises held-for-sale	—	—	93	—
Trust and insurance commissions and annuities income	207	210	670	704
Earnings on bank-owned life insurance	35	67	146	196
Bank-owned life insurance death benefit	—	—	1,389	—
Other	208	198	492	526
Total noninterest income	1,570	1,623	6,203	4,774
Noninterest expense				
Compensation and benefits	5,120	5,330	16,232	16,792
Office occupancy and equipment	1,629	1,693	5,022	4,914
Advertising and public relations	194	167	611	807
Information technology	717	638	2,066	2,070
Supplies, telephone, and postage	341	337	1,070	1,027
Amortization of intangibles	20	123	163	374
Nonperforming asset management	60	84	313	215
Operations of other real estate owned	59	403	355	861
FDIC insurance premiums	115	150	338	462
Other	1,170	1,275	3,429	3,551
Total noninterest expense	9,425	10,200	29,599	31,073
Income before income taxes	5,133	4,154	15,829	10,501
Income tax expense	1,396	594	3,903	2,488
Net income	$3,737	$ 3,560	$11,926	$ 8,013
Basic earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Diluted earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Weighted average common shares outstanding	17,365,679	18,139,659	17,641,308	18,368,742

Diluted weighted average common shares outstanding	17,365,679	18,140,109	17,641,308	18,369,170

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands) - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$3,737	$3,560	$11,926	$8,013
Unrealized holding gain (loss) arising during the period	(49)	16	(173)	(67)
Tax effect	13	(9)	47	22
Net of tax	(36)	7	(126)	(45)
Comprehensive income	$3,701	$3,567	$11,800	$7,968

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2017	$ 192	$173,047	$39,483	$ (8,318)	$ 376	$204,780
Net income	—	—	8,013	—	—	8,013
Other comprehensive loss, net of tax	—	—	—	—	(45)	(45)
Net exercise of stock options (198,026 shares)	2	(1,239)	—	—	—	(1,237)
Prepayment of ESOP Share Acquisition Loan	(8)	(7,185)		8,318	—	1,125
Repurchase and retirement of common stock (614,673 shares)	(6)	(9,142)	—	—	—	(9,148)
Cash dividends declared on common stock ($0.20 per share)	—	—	(3,710)	—	—	(3,710)
Balance at September 30, 2017	$ 180	$155,481	$43,786	$ —	$ 331	$199,778
Balance at January 1, 2018	$ 179	$153,811	$43,274	$ —	$ 370	$197,634
Net income	—	—	11,926	—	—	11,926
Other comprehensive loss, net of tax	—	—	—	—	(126)	(126)
Nonvested stock awards-stock-based compensation expense	—	6	—	—	—	6
Repurchase and retirement of common stock (752,174 shares)	(7)	(12,587)	—	—	—	(12,594)
Cash dividends declared on common stock ($0.27 per share)	—	—	(4,763)	—	—	(4,763)
Balance at September 30, 2018	$ 172	$141,230	$50,437	$ —	$ 244	$192,083

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$11,926	$8,013
Adjustments to reconcile to net income to net cash from operating activities		
Recovery of loan losses	(258)	(15)
Prepayment of ESOP Share Acquisition Loan	—	1,125
Stock–based compensation expense	6	—
Depreciation and amortization	2,513	2,846
Amortization of premiums and discounts on securities and loans	9	(72)
Amortization of core deposit intangible	163	374
Amortization of servicing assets	79	86
Net change in net deferred loan origination costs	53	343
Loss on sale of other real estate owned	56	100
Net gain on sale of loans	—	(70)
Loss on sale of equity securities	14	—
Gain on sale of premises held-for-sale	(93)	—
Loans originated for sale	—	(1,291)
Proceeds from sale of loans	—	1,361
Other real estate owned valuation adjustments	27	301
Net change in:		
Accrued interest receivable	(355)	(188)
Earnings on bank owned life insurance	(146)	(196)
Other assets	3,540	4,027
Accrued interest payable and other liabilities	(3,076)	(1,966)
Net cash from operating activities	14,458	14,778
Cash flows from investing activities		
Securities		
Proceeds from maturities	76,164	49,695
Proceeds from principal repayments	2,970	2,461
Proceeds from sale of equity securities	487	—
Purchases of securities	(90,355)	(43,808)
Loans receivable		
Loan participations sold	—	3,615
Principal payments on loans receivable	729,474	459,706
Purchase of loans	—	(23,451)
Originated for investment	(683,685)	(465,562)
Purchase of FHLB and FRB stock	(21)	(154)
Redemption of FHLB and FRB stock	285	3,514
Bank-owned life insurance death benefit	4,224	—
Proceeds from sale of premises held-for-sale	5,485	—
Proceeds from sale of other real estate owned	2,172	1,966
Purchase of premises and equipment, net	(512)	(906)

Net cash from (used in) investing activities	46,688	(12,924)

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities		
Net change in deposits	$(44,281)	$31,699
Net change in borrowings	(39,536)	9,859
Net change in advance payments by borrowers for taxes and insurance	(630)	(358)
Repurchase and retirement of common stock	(12,594)	(9,148)
Cash dividends paid on common stock	(4,763)	(3,710)
Shares retired for tax liability	—	(1,219)
Net cash from (used in) financing activities	(101,804)	27,123
Net change in cash and cash equivalents	(40,658)	28,977
Beginning cash and cash equivalents	127,592	96,684
Ending cash and cash equivalents	$86,934	$125,661
Supplemental disclosures of cash flow information:		
Interest paid	$5,960	$4,269
Income taxes paid	250	198
Loans transferred to other real estate owned	1,241	2,041

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, NA (the “Bank”). The interim unaudited consolidated financial statements include the accounts and transactions of BankFinancial Corporation, the Bank, and the Bank’s wholly-owned subsidiaries, Financial Assurance Services, Inc. and BFIN Asset Recovery Company, LLC (collectively, “the Company”), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. Such adjustments are the only adjustments reflected in the accompanying financial statements. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018 or for any other period.
Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.
Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.
Reclassifications: Certain reclassifications have been made in the prior period’s financial statements to conform them to the current period’s presentation.
These unaudited consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.
Recent Accounting Pronouncements
In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We have evaluated the impact of adopting the update and have concluded that it does not have a significant impact to our consolidated financial statements. The Company’s revenue streams that are in-scope from the update include: financed OREO sales; deposit fees, including ATM fees, overdraft fees, maintenance fees and dormancy fees; debit card fees, and trust fees. For the in-scope revenue streams, our current revenue recognition is not different than our prior revenue recognition under the update. The Company has infrequently financed an OREO sale. Our customer contracts generally do not have performance obligations and fees are assessed and collected as the transaction occurs. The Company’s fee income is not material for any individual income streams. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue stream; as such, no cumulative effect adjustment was recorded. Refer to Note 8 - Revenue for Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized

BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance became effective for public business entities for fiscal years beginning after December 15, 2017. The new pronouncement does not have a significant impact on our Statement of Operations, as we had one equity security that was valued at $499,000 at December 31, 2017 and none at September 30, 2018.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement are less than one percent of our current total assets.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our initial review indicates that we have maintained sufficient historical loan data to support the requirements of this pronouncement. In addition, we have begun tracking the average life of the various segments of our loan portfolio. We are currently evaluating various loss methodologies to determine their correlation to our various loan categories' historical performance. In August 2018, we contracted with a third-party vendor to provide a model and assist with assessing processes, portfolio segmentation, and model development.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”). This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset dates), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. Effective January 2017, we early adopted the pronouncement. Adoption of the new pronouncement was immaterial to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 2 - EARNINGS PER SHARE

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned BankFinancial, NA Employee Stock Ownership Plan (the "ESOP") shares in 2017 and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income available to common stockholders	$3,737	$ 3,560	$11,926	$ 8,013
Average common shares outstanding	17,365,679	18,140,599	17,641,743	18,567,796
Less:				
Unearned ESOP shares	—	—	—	(198,114)
Unvested restricted stock shares	—	(940)	(435)	(940)
Weighted average common shares outstanding	17,365,679	18,139,659	17,641,308	18,368,742
Add - Net effect of dilutive unvested restricted stock	—	450	—	428
Diluted weighted average common shares outstanding	17,365,679	18,140,109	17,641,308	18,369,170
Basic earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Diluted earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44

NOTE 3 - SECURITIES

The fair value of securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income are shown below.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Certificates of deposit	$ 89,175	$ —	$ —	$ 89,175
Mortgage-backed securities - residential	10,593	393	(61)	10,925
Collateralized mortgage obligations - residential	3,819	13	(11)	3,821
	$ 103,587	$ 406	$ (72)	$ 103,921
December 31, 2017				
Certificates of deposit	$ 75,916	$ —	$ —	$ 75,916
Equity mutual fund	500	—	(1)	499
Mortgage-backed securities - residential	11,969	520	(17)	12,472
Collateralized mortgage obligations - residential	4,481	16	(11)	4,486
SBA-guaranteed loan participation certificates	10	—	—	10
	$ 92,876	$ 536	$ (29)	$ 93,383

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 3 - SECURITIES (continued)

The mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at September 30, 2018 and December 31, 2017.
The amortized cost and fair values of securities by contractual maturity are shown below. Securities not due at a single maturity date are shown separately. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2018	
	Amortized Cost	Fair Value
Due in one year or less	$89,175	$89,175
Mortgage-backed securities - residential	10,593	10,925
Collateralized mortgage obligations - residential	3,819	3,821
	$103,587	$103,921

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds	$ —	$ —	$ 487	$ —
Gross gains	—	—	—	—
Gross losses	—	—	(14)	—

Securities with unrealized losses not recognized in income are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Mortgage-backed securities - residential	$924	$ (6)	$1,004	$ (55)	$1,928	$ (61)
Collateralized mortgage obligations - residential	—	—	1,796	(11)	1,796	(11)
	$924	$ (6)	$2,800	$ (66)	$3,724	$ (72)
December 31, 2017						
Equity mutual fund	$499	$ (1)	$—	$ —	$499	$ (1)
Mortgage-backed securities - residential	—	—	1,149	(17)	1,149	(17)
Collateralized mortgage obligations - residential	—	—	2,083	(11)	2,083	(11)
	$499	$ (1)	$3,232	$ (28)	$3,731	$ (29)

The Company evaluates marketable investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under current accounting guidance, which generally provides that if a marketable security is in an unrealized loss position, whether due to general market conditions or industry or issuer-specific factors, the holder of the securities must assess whether the impairment is other-than-temporary.

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 3 - SECURITIES (continued)

Certain mortgage-backed securities and collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at September 30, 2018, but the unrealized losses were not considered significant under the Company’s impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.

NOTE 4 - LOAN RECEIVABLE

Loans receivable are as follows:

	September 30, 2018	December 31, 2017
One-to-four family residential real estate	$ 77,591	$ 97,814
Multi-family mortgage	581,880	588,383
Nonresidential real estate	148,010	169,971
Construction and land	1,130	1,358
Commercial loans	167,547	152,552
Commercial leases	297,103	310,076
Consumer	1,416	1,597
	1,274,677	1,321,751
Net deferred loan origination costs	1,213	1,266
Allowance for loan losses	(8,103)	(8,366)
Loans, net	$ 1,267,787	$ 1,314,651

The following tables present the balance in the allowance for loan losses and the loans receivable by portfolio segment and based on impairment method:

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
September 30, 2018						
One-to-four family residential real estate	$ —	$ 762	$ 762	$ 2,724	$ 74,867	$ 77,591
Multi-family mortgage	—	3,722	3,722	661	581,219	581,880
Nonresidential real estate	—	1,410	1,410	—	148,010	148,010
Construction and land	—	27	27	—	1,130	1,130
Commercial loans	—	1,482	1,482	—	167,547	167,547
Commercial leases	—	684	684	—	297,103	297,103
Consumer	—	16	16	—	1,416	1,416
	$ —	$ 8,103	$ 8,103	$ 3,385	$ 1,271,292	1,274,677
Net deferred loan origination costs						1,213
Allowance for loan losses						(8,103)
Loans, net						$ 1,267,787

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NOTE 4 - LOANS RECEIVABLE (continued)

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2017						
One-to-four family residential real estate	$—	$ 850	$850	$4,265	$93,549	$97,814
Multi-family mortgage	—	3,849	3,849	949	587,434	588,383
Nonresidential real estate	—	1,605	1,605	—	169,971	169,971
Construction and land	—	32	32	—	1,358	1,358
Commercial loans	—	1,357	1,357	—	152,552	152,552
Commercial leases	—	655	655	—	310,076	310,076
Consumer	—	18	18	—	1,597	1,597
	$—	$ 8,366	$8,366	$5,214	$1,316,537	1,321,751
Net deferred loan origination costs						1,266
Allowance for loan losses						(8,366)
Loans, net						$1,314,651

Activity in the allowance for loan losses is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$8,179	$8,122	$8,366	$8,127
Loans charged off:				
One-to-four family residential real estate	(84)	(89)	(214)	(282)
Multi-family mortgage	—	(7)	(35)	(10)
Nonresidential real estate	—	—	—	(165)
Commercial loans	—	—	(140)	—
Consumer	(6)	(7)	(7)	(7)
	(90)	(103)	(396)	(464)
Recoveries:				
One-to-four family residential real estate	25	15	130	100
Multi-family mortgage	8	11	26	62
Nonresidential real estate	—	10	—	10
Construction and land	2	—	2	—
Commercial loans	2	542	227	552
Commercial leases	—	2	5	2
Consumer	—	—	1	—
	37	580	391	726
Net recoveries (charge-offs)	(53)	477	(5)	262
Recovery of loan losses	(23)	(225)	(258)	(15)
Ending balance	$8,103	$8,374	$8,103	$8,374

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NOTE 4 - LOANS RECEIVABLE (continued)

Impaired loans
Several of the following disclosures are presented by “recorded investment,” which the FASB defines as “the amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment.” The following represents the components of recorded investment:
Loan principal balance
Less unapplied payments
Plus negative unapplied balance
Less escrow balance
Plus negative escrow balance
Plus unamortized net deferred loan costs
Less unamortized net deferred loan fees
Plus unamortized premium
Less unamortized discount
Less previous charge-offs
Plus recorded accrued interest
Less reserve for uncollected interest
= Recorded investment
The following tables present loans individually evaluated for impairment by class of loans:

					Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
September 30, 2018								
With no related allowance recorded:								
One-to-four family residential real estate	$ 3,322	$ 2,677	$ 656	$ —	$ 3,154	$ 13	$ 3,584	$ 35
One-to-four family residential real estate - non-owner occupied	86	46	43	—	46	—	110	—
Multi-family mortgage - Illinois	661	665	—	—	666	10	836	30
	$ 4,069	$ 3,388	$ 699	$ —	$ 3,866	$ 23	$ 4,530	$ 65

					Year ended December 31, 2017	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2017						
With no related allowance recorded:						
One-to-four family residential real estate	$ 5,049	$ 4,248	$ 806	$ —	$ 4,212	$ 197
Multi-family mortgage - Illinois	958	948	—	—	847	41

$ 6,007	$ 5,196	$ 806	$ —	$ 5,059	$ 238

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NOTE 4 - LOANS RECEIVABLE (continued)

Nonaccrual Loans
The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans:

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
September 30, 2018			
One-to-four family residential real estate	$ 1,646	$ 1,313	$ —
One-to-four family residential real estate – non-owner occupied	95	56	—
Multi-family mortgage - Illinois	102	102	—
	$ 1,843	$ 1,471	$ —
December 31, 2017			
One-to-four family residential real estate	$ 3,413	$ 1,918	$ —
One-to-four family residential real estate – non-owner occupied	308	109	—
Multi-family mortgage - Illinois	376	363	—
	$ 4,097	$ 2,390	$ —

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some loans may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.
The Company’s reserve for uncollected loan interest was $36,000 and $103,000 at September 30, 2018 and December 31, 2017, respectively. When a loan is on nonaccrual status and the ultimate collectability of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. Alternatively, when a loan is on non-accrual status but there is doubt concerning only the ultimate collectability of interest, contractual interest is credited to interest income only when received, under the cash basis method pursuant to the provisions of FASB ASC 310–10, as applicable. In all cases, the average balances are calculated based on the month–end balances of the financing receivables within the period reported pursuant to the provisions of FASB ASC 310–10, as applicable.

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NOTE 4 - LOANS RECEIVABLE (continued)

Past Due Loans
The following tables present the aging of the recorded investment of loans at September 30, 2018 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate loans	$ 392	$ —	$ 1,329	$ 1,721	$ 59,925	$ 61,646
One-to-four family residential real estate loans – non-owner occupied	34	8	48	90	15,817	15,907
Multi-family mortgage - Illinois	—	—	102	102	275,714	275,816
Multi-family mortgage - Other	—	—	—	—	299,469	299,469
Nonresidential real estate	607	—	—	607	146,394	147,001
Construction	—	—	—	—	932	932
Land	—	—	—	—	198	198
Commercial loans:						
Regional commercial banking	—	—	—	—	50,105	50,105
Health care	—	—	—	—	69,248	69,248
Direct commercial lessor	—	—	—	—	48,942	48,942
Commercial leases:						
Investment rated commercial leases	787	—	—	787	181,402	182,189
Other commercial leases	—	—	—	—	116,651	116,651
Consumer	12	5	—	17	1,410	1,427
	$ 1,832	$ 13	$ 1,479	$ 3,324	$ 1,266,207	$ 1,269,531

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NOTE 4 - LOANS RECEIVABLE (continued)

The following tables present the aging of the recorded investment of loans at December 31, 2017 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate loans	$ 86	$ 99	$ 1,801	$ 1,986	$ 74,216	$ 76,202
One-to-four family residential real estate loans – non-owner occupied	10	3	86	99	20,944	21,043
Multi-family mortgage - Illinois	172	—	364	536	287,171	287,707
Multi-family mortgage - Other	—	—	—	—	296,440	296,440
Nonresidential real estate	608	—	—	608	166,071	166,679
Construction	—	—	—	—	1,103	1,103
Land	—	—	—	—	259	259
Commercial loans:						
Regional commercial banking	—	—	—	—	40,935	40,935
Health care	—	—	—	—	71,738	71,738
Direct commercial lessor	—	—	—	—	40,237	40,237
Commercial leases:						
Investment rated commercial leases	934	—	—	934	207,747	208,681
Other commercial leases	288	—	—	288	102,873	103,161
Consumer	—	—	—	—	1,605	1,605
	$ 2,098	$ 102	$ 2,251	$ 4,451	$ 1,311,339	$ 1,315,790

Troubled Debt Restructurings

The Company evaluates loan extensions or modifications in accordance with FASB ASC 310–40 with respect to the classification of the loan as a Troubled Debt Restructuring ("TDR"). In general, if the Company grants a loan extension or modification to a borrower experiencing financial difficulties for other than an insignificant period of time that includes a below–market interest rate, principal forgiveness, payment forbearance or other concession intended to minimize the economic loss to the Company, the loan extension or loan modification is classified as a TDR. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal then due and payable, management measures any impairment on the restructured loan in the same manner as for impaired loans as noted above.

The Company had $17,000 of TDRs at September 30, 2018 and December 31, 2017. No specific valuation reserves were allocated to those loans at September 30, 2018 and December 31, 2017. The Company had no outstanding commitments to borrowers whose loans were classified as TDRs at either date.

The following table presents loans classified as TDRs:

	September 30, 2018	December 31, 2017
One-to-four family residential real estate - nonaccrual	$ 17	$ 17

During the three and nine months ended September 30, 2018 and 2017, there were no loans modified and classified as TDRs.

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NOTE 4 - LOANS RECEIVABLE (continued)

The following table presents TDRs for which there was a payment default within twelve months following the modification.

	2018		2017	
	Number of loans	Recorded investment	Number of loans	Recorded investment
One-to-four family residential real estate	—	$ —	1	$ 17

A TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no payment defaults on TDRs within twelve months following the modification during the three and nine months ended September 30, 2018.

There were no loan modifications during the three and nine months ended September 30, 2018. There were certain loan modifications during the three and nine months ended September 30, 2017 that did not meet the definition of a TDR. These loans had a total recorded investment of $149,000 at September 30, 2017. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans based on credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. A Special Mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans categorized as Substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time. The risk rating guidance published by the Office of the Comptroller of the Currency clarifies that a loan with a well-defined weakness does not have to present a probability of default for the loan to be rated Substandard, and that an individual loan’s loss potential does not have to be distinct for the loan to be rated Substandard.

Nonaccrual. An asset classified Nonaccrual has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered “Pass” rated loans.

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NOTE 4 - LOANS RECEIVABLE (continued)

As of September 30, 2018, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate loans	$59,714	$310	$ 372	$ 1,314	$61,710
One-to-four family residential real estate loans – non-owner occupied	15,755	33	37	56	15,881
Multi-family mortgage loans - Illinois	276,398	—	310	102	276,810
Multi-family mortgage loans - Other	305,070	—	—	—	305,070
Nonresidential real estate loans	147,911	—	99	—	148,010
Construction loans	929	—	—	—	929
Land loans	201	—	—	—	201
Commercial loans:					
Regional commercial banking	45,170	4,815	—	—	49,985
Health care	64,374	—	4,699	—	69,073
Direct commercial lessor	48,489	—	—	—	48,489
Commercial leases:					
Investment rated commercial leases	180,383	748	—	—	181,131
Other commercial leases	115,972	—	—	—	115,972
Consumer	1,401	5	10	—	1,416
	$1,261,767	$5,911	$ 5,527	$ 1,472	$1,274,677

As of December 31, 2017, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate loans	$74,437	$—	$ 255	$ 1,914	$76,606
One-to-four family residential real estate loans – non-owner occupied	21,059	—	40	109	21,208
Multi-family mortgage loans - Illinois	290,765	—	225	368	291,358
Multi-family mortgage loans - Other	297,025	—	—	—	297,025
Nonresidential real estate loans	169,817	—	154	—	169,971
Construction loans	1,099	—	—	—	1,099
Land loans	259	—	—	—	259
Commercial loans:					
Regional commercial banking	36,373	4,528	—	—	40,901
Health care	69,480	—	2,248	—	71,728
Direct commercial lessor	39,923	—	—	—	39,923
Commercial leases:					
Investment rated commercial leases	207,460	—	—	—	207,460
Other commercial leases	102,616	—	—	—	102,616
Consumer	1,597	—	—	—	1,597
	$1,311,910	$4,528	$ 2,922	$ 2,391	$1,321,751

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NOTE 5 - OTHER REAL ESTATE OWNED

Real estate that is acquired through foreclosure or a deed in lieu of foreclosure is classified as other real estate owned ("OREO") until it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at its fair value, less the estimated costs of disposal. If the fair value of the property is less than the loan balance, the difference is charged against the allowance for loan losses.

	September 30, 2018			December 31, 2017		
	Balance	Valuation Allowance	Net OREO Balance	Balance	Valuation Allowance	Net OREO Balance
One–to–four family residential	$ 634	$ —	$ 634	$ 836	$ (9)	$ 827
Multi-family mortgage	276	—	276	—	—	—
Nonresidential real estate	74	—	74	1,772	(252)	1,520
Land	24	(23)	1	48	(44)	4
	$ 1,008	$ (23)	$ 985	$ 2,656	$ (305)	$ 2,351

The following represents the roll forward of OREO and the composition of OREO properties:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$ 1,187	$ 4,896	$ 2,351	$ 3,895
New foreclosed properties	403	105	1,241	2,041
Valuation adjustments	(1)	(227)	(27)	(301)
Sales and payments	(604)	(1,205)	(2,580)	(2,066)
Ending balance	$ 985	$ 3,569	$ 985	$ 3,569

Activity in the valuation allowance is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$ 44	$ 308	$ 305	$ 449
Additions charged to expense	1	227	27	301
Reductions from sales of OREO	(22)	(63)	(309)	(278)
Ending balance	$ 23	$ 472	$ 23	$ 472

At September 30, 2018, the balance of OREO included no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property without title. At December 31, 2017 the balance of OREO included $352,000 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property without title. At September 30, 2018 and December 31, 2017, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $603,000 and $1.5 million, respectively.

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NOTE 6 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase, included with borrowings on the consolidated balance sheet, are shown below.

	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
September 30, 2018					
Repurchase agreements and repurchase-to-maturity transactions	$ 1,232	$ —	$ —	$ —	$ 1,232
Gross amount of recognized liabilities for repurchase agreements in Statement of Condition					$ 1,232
December 31, 2017					
Repurchase agreements and repurchase-to-maturity transactions	$ 768	$ —	$ —	$ —	$ 768
Gross amount of recognized liabilities for repurchase agreements in Statement of Condition					$ 768

Securities sold under agreements to repurchase were secured by mortgage-backed securities with a carrying amount of $2.7 million and $3.7 million at September 30, 2018 and December 31, 2017, respectively. Also included in total borrowings were advances from the FHLB of $20.0 million at September 30, 2018 and $60.0 million at December 31, 2017.

Because security values fluctuate due to market conditions, the Company has no control over the market value of securities sold under agreements to repurchase. The Company is contractually obligated to promptly transfer additional securities to the counterparty if the market value of the securities falls below the repurchase price.

NOTE 7 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security (Level 1). If Level 1 measurement inputs are not available for a marketable equity security, we determine its fair value based on the quoted price of a similar security traded in an active market (Level 2). The fair values of debt securities are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

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NOTE 7 - FAIR VALUE (continued)

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.
The following table sets forth the Company’s financial assets that were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
September 30, 2018				
Securities:				
Certificates of deposit	$—	$ 89,175	$ —	$89,175
Mortgage-backed securities – residential	—	10,925	—	10,925
Collateralized mortgage obligations – residential	—	3,821	—	3,821
	$—	$ 103,921	$ —	$103,921
December 31, 2017				
Securities:				
Certificates of deposit	$—	$ 75,916	$ —	$75,916
Equity mutual fund	499	—	—	499
Mortgage-backed securities - residential	—	12,472	—	12,472
Collateralized mortgage obligations – residential	—	4,486	—	4,486
SBA-guaranteed loan participation certificates	—	10	—	10
	$499	$ 92,884	$ —	$93,383

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NOTE 7 - FAIR VALUE (continued)

The following table sets forth the Company's assets that were measured at fair value on a non-recurring basis:

	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
September 30, 2018				
Other real estate owned:				
Land	$ —	$ —	$ 1	$ 1
December 31, 2017				
Other real estate owned:				
One-to-four family residential real estate	$ —	$ —	$ 102	$ 102
Nonresidential real estate	—	—	814	814
	$ —	$ —	$ 916	$ 916

At September 30, 2018 and December 31, 2017 there were no impaired loans that were measured for impairment using the fair value of the collateral for collateral–dependent loans and which had specific valuation allowances.
OREO, which is carried at the lower of cost or fair value less costs to sell, and had a carrying value of $24,000 less a valuation allowance of $23,000, or $1,000 at September 30, 2018, compared to a carrying value of $1.2 million less a valuation allowance of $261,000, or $916,000, at December 31, 2017. There were $27,000 and $301,000 of valuation adjustments of OREO recorded for the nine months ended September 30, 2018 and 2017, respectively.
The following table presents quantitative information, based on certain empirical data with respect to Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis:

	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
September 30, 2018				
Other real estate owned:				
Land	1	Sales comparison	Discount applied to valuation	12.3%
	$ 1			
December 31, 2017				
Other real estate owned				
One-to-four family residential real estate	$ 102	Sales comparison	Discount applied to valuation	5.6%
Nonresidential real estate	814	Sales comparison	Comparison between sales and income approaches	-3.66% to 15.22%

(11.0%)

$ 916

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NOTE 7 - FAIR VALUE (continued)

The carrying amount and estimated fair value of financial instruments are as follows:

		Fair Value Measurements at September 30, 2018 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$86,934	$12,473	$74,461	$ —	$86,934
Securities	103,921	—	103,921	—	103,921
Loans receivable, net of allowance for loan losses	1,267,787	—	—	1,265,906	1,265,906
FHLB and FRB stock	8,026	—	—	—	N/A
Accrued interest receivable	4,974	—	4,974	—	4,974
Financial liabilities					
Noninterest-bearing demand deposits	$225,446	$—	$225,446	$ —	$225,446
NOW and money market accounts	549,631	—	549,631	—	549,631
Savings deposits	155,232	—	155,232	—	155,232
Certificates of deposit	365,461	—	362,670	—	362,670
Borrowings	21,232	—	21,214	—	21,214
Accrued interest payable	361	—	361	—	361

		Fair Value Measurements at December 31, 2017 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$127,592	$13,572	$114,020	$ —	$127,592
Securities	93,383	499	92,884	—	93,383
Loans receivable, net of allowance for loan losses	1,314,651	—	1,323,139	—	1,323,139
FHLB and FRB stock	8,290	—	—	—	N/A
Accrued interest receivable	4,619	—	4,619	—	4,619
Financial liabilities					
Noninterest-bearing demand deposits	$234,354	$—	$234,354	$ —	$234,354
NOW and money market accounts	589,238	—	589,238	—	589,238
Savings deposits	160,501	—	160,501	—	160,501
Certificates of deposit	355,958	—	353,969	—	353,969
Borrowings	60,768	—	60,627	—	60,627
Accrued interest payable	147	—	147	—	147

For purposes of the above, the following assumptions were used:

Cash and Cash Equivalents: The estimated fair values for cash and cash equivalents are based on their carrying value due to the short-term nature of these assets.

Loans: At September 30, 2018, the exit price observations are obtained from an independent third-party using i