

TF FINANCIAL CORP  
Form 10-Q  
November 16, 2009  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

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

**For the period ended September 30, 2009**

- 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: 0-24168**

## TF FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation  
or Organization)

**74-2705050**  
(I.R.S. Employer Identification No.)

**3 Penns Trail, Newtown, Pennsylvania**  
(Address of Principal Executive Offices)

**18940**  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 Exchange Act). YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: **November 9, 2009**

| Class                        | Outstanding      |
|------------------------------|------------------|
| \$.10 par value common stock | 2,664,982 shares |

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**Exhibits**

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| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of CFO pursuant of Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.  | Certification pursuant of Section 906 of the Sarbanes-Oxley Act of 2002        |

Table of Contents**TF Financial Corporation and Subsidiaries****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

|   | Unaudited<br>September 30,<br>2009 | Audited<br>December 31,<br>2008 |
|---|------------------------------------|---------------------------------|
|   | (in thousands)                     |                                 |
| <b>ASSETS</b>   |                                    |                                 |
| Cash and cash equivalents   | \$ 4,401                           | \$ 2,719                        |
| Investment securities available for sale at fair value  | 34,452                             | 31,619                          |
| Mortgage-backed securities available for sale at fair value   | 94,250                             | 107,217                         |
| Mortgage-backed securities held to maturity (fair value of \$4,248 and \$4,996, respectively)   | 3,938                              | 4,774                           |
| Loans receivable, net   | 530,953                            | 544,330                         |
| Loans receivable held for sale  | 1,594                              | 1,659                           |
| Federal Home Loan Bank stock at cost  | 9,896                              | 9,896                           |
| Accrued interest receivable   | 2,619                              | 2,788                           |
| Premises and equipment, net   | 5,358                              | 5,636                           |
| Goodwill  | 4,324                              | 4,324                           |
| Bank-owned life insurance   | 17,015                             | 16,514                          |
| Other assets  | 3,049                              | 2,232                           |
| <b>TOTAL ASSETS</b>   | <b>\$ 711,849</b>                  | <b>\$ 733,708</b>               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                    |                                 |
| <b>Liabilities</b>  |                                    |                                 |
| Deposits  | \$ 531,949                         | \$ 489,850                      |
| Borrowings from the Federal Home Loan Bank  | 89,744                             | 158,148                         |
| Other short-term borrowings   | 10,000                             | 10,000                          |
| Advances from borrowers for taxes and insurance   | 1,588                              | 2,315                           |
| Accrued interest payable  | 3,264                              | 3,066                           |
| Other liabilities   | 3,754                              | 2,637                           |
| <b>Total liabilities</b>  | <b>640,299</b>                     | <b>666,016</b>                  |
| <b>Stockholders' equity</b>   |                                    |                                 |
| Preferred stock, no par value; 2,000,000 shares authorized at September 30, 2009 and December 31, 2008, none issued   |                                    |                                 |
| Common stock, \$0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,525,882 and 2,515,407 shares outstanding at September 30, 2009 and December 31, 2008, respectively, net of shares in treasury 2,626,219 and 2,627,752 respectively | 529                                | 529                             |
| Additional paid-in capital  | 54,015                             | 53,897                          |
| Unearned ESOP shares  | (1,379)                            | (1,468)                         |
| Treasury stock-at cost  | (54,516)                           | (54,538)                        |
| Retained earnings   | 71,720                             | 69,875                          |
| Accumulated other comprehensive income (loss)   | 1,181                              | (603)                           |
| <b>Total stockholders' equity</b>   | <b>71,550</b>                      | <b>67,692</b>                   |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 711,849</b>                  | <b>\$ 733,708</b>               |

The accompanying notes are an integral part of these statements

Table of Contents**TF Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

|  | For the three months<br>ended<br>September 30, |              | For the nine months<br>ended<br>September 30, |               |
|--|--|--------------|---|---------------|
|  | 2009   | 2008         | 2009  | 2008          |
|  | (in thousands, except per share data)          |              |   |               |
| <b>Interest income</b>   |  |              |   |               |
| Loans, including fees  | \$ 7,638                                       | \$ 8,257     | \$ 22,951                                     | \$ 24,595     |
| Mortgage-backed securities                                     | 1,170  | 1,079        | 3,849   | 3,442         |
| Investment securities  | 311  | 383          | 864   | 1,161         |
| Interest-bearing deposits and other                            | 1  | 6            | 1   | 16            |
| <b>TOTAL INTEREST INCOME</b>                                   | <b>9,120</b>                                   | <b>9,725</b> | <b>27,665</b>                                 | <b>29,214</b> |
| <b>Interest expense</b>  |  |              |   |               |
| Deposits   | 2,393  | 2,772        | 7,347   | 8,984         |
| Borrowings   | 988  | 1,576        | 3,481   | 4,779         |
| <b>TOTAL INTEREST EXPENSE</b>                                  | <b>3,381</b>                                   | <b>4,348</b> | <b>10,828</b>                                 | <b>13,763</b> |
| <b>NET INTEREST INCOME</b>                                     | <b>5,739</b>                                   | <b>5,377</b> | <b>16,837</b>                                 | <b>15,451</b> |
| Provision for loan losses                                      | 650  | 150          | 1,905   | 490           |
| <b>NET INTEREST INCOME AFTER<br/>PROVISION FOR LOAN LOSSES</b> | <b>5,089</b>                                   | <b>5,227</b> | <b>14,932</b>                                 | <b>14,961</b> |
| <b>Non-interest income</b>                                     |  |              |   |               |
| Service fees, charges and other operating<br>income            | 464  | 504          | 1,498   | 1,740         |
| Bank-owned life insurance                                      | 171  | 155          | 501   | 470           |
| Gain on sale of investments                                    |  |              | 306   |               |
| Gain on sale of loans  | 127  | 40           | 528   | 199           |
| Gain on sale of foreclosed real estate                         | 34   |              | 337   | 342           |
| Other income   |  |              |   | 197           |
| <b>TOTAL NON-INTEREST INCOME</b>                               | <b>796</b>                                     | <b>699</b>   | <b>3,170</b>                                  | <b>2,948</b>  |
| <b>Non-interest expense</b>                                    |  |              |   |               |
| Employee compensation and benefits                             | 2,601  | 2,648        | 7,917   | 7,863         |
| Occupancy and equipment  | 756  | 691          | 2,174   | 2,159         |
| Professional fees  | 195  | 142          | 651   | 563           |
| Marketing and advertising                                      | 118  | 144          | 382   | 433           |
| FDIC insurance premiums  | 182  | 21           | 714   | 48            |
| Other operating  | 568  | 568          | 1,782   | 1,742         |
| <b>TOTAL NON-INTEREST EXPENSE</b>                              | <b>4,420</b>                                   | <b>4,214</b> | <b>13,620</b>                                 | <b>12,808</b> |

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|                            |          |          |          |          |
|----------------------------|----------|----------|----------|----------|
| INCOME BEFORE INCOME TAXES | 1,465    | 1,712    | 4,482    | 5,101    |
| Income taxes               | 353      | 462      | 1,128    | 1,386    |
| NET INCOME                 | \$ 1,112 | \$ 1,250 | \$ 3,354 | \$ 3,715 |
| Earnings per share basic   | \$ 0.44  | \$ 0.47  | \$ 1.33  | \$ 1.40  |
| Earnings per share diluted | \$ 0.44  | \$ 0.47  | \$ 1.33  | \$ 1.39  |
| Dividends paid per share   | \$ 0.20  | \$ 0.20  | \$ 0.60  | \$ 0.60  |

The accompanying notes are an integral part of these statements

Table of Contents**TF Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|  | <b>For the nine months<br/>ended<br/>September 30,</b> |              |
|--|--|--------------|
|  | <b>2009</b>  | <b>2008</b>  |
|  | <b>(in thousands)</b>                                  |              |
| <b>OPERATING ACTIVITIES</b>  |  |              |
| Net income   | \$ 3,354   | \$ 3,715     |
| Adjustments to reconcile net income to net cash provided by operating activities |  |              |
| Amortization of  |  |              |
| Mortgage loan servicing rights   | 136  | 104          |
| Deferred loan origination fees   | 76   | (1)          |
| Premiums and discounts on investment securities, net                             | 61   | 65           |
| Premiums and discounts on mortgage-backed securities, net                        | (172)  | (105)        |
| Premiums and discounts on loans, net   | 134  | 61           |
| Provision for loan losses  | 1,905  | 490          |
| Depreciation of premises and equipment   | 670  | 720          |
| Increase in value of bank-owned life insurance                                   | (501)  | (470)        |
| Stock grant expense  | 12   | 271          |
| Stock option expense   | 42   | 278          |
| Stock-based benefit programs: ESOP   | 161  | 206          |
| Proceeds from sale of loans originated for sale                                  | 35,088   | 13,435       |
| Origination of loans held for sale   | (34,797)   | (12,372)     |
| Gain on sale of  |  |              |
| Investments  | (306)  |              |
| Loans held for sale  | (528)  | (199)        |
| Foreclosed real estate   | (337)  | (342)        |
| Decrease (increase) in   |  |              |
| Accrued interest receivable  | 169  | 253          |
| Other assets   | 467  | (101)        |
| Increase in  |  |              |
| Accrued interest payable   | 198  | 414          |
| Other liabilities  | 208  | 55           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                 | <b>6,040</b>   | <b>6,477</b> |
| <b>INVESTING ACTIVITIES</b>  |  |              |
| Loan originations  | (67,343)   | (106,805)    |
| Loan principal payments  | 75,442   | 73,773       |
| Principal repayments on mortgage-backed securities held to maturity              | 843  | 1,243        |
| Principal repayments on mortgage-backed securities available for sale            | 25,311   | 16,342       |
| Purchase of investment securities available for sale                             | (7,856)  | (2,937)      |
| Purchase of mortgage-backed securities available for sale                        | (10,608)   | (5,895)      |
| Proceeds from sale of investment securities available for sale                   | 5,514  |              |
| Proceeds from redemption/maturities of investment securities available for sale  | 755  | 4,000        |
| Proceeds from maturity of investment securities held to maturity                 |  | 245          |
| Purchase of Federal Home Loan Bank stock, net                                    |  | (708)        |
| Proceeds from the sale of foreclosed real estate                                 | 2,497  | 1,272        |



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|   |        |          |
|---|--------|----------|
| Purchase of premises and equipment                  | (392)  | (218)    |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 24,163 | (19,688) |

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|  | For the nine months ended<br>September 30, |                |
|--|--|----------------|
|  | 2009                                       | 2008           |
|  | (in thousands)                             |                |
| <b>FINANCING ACTIVITIES</b>  |  |                |
| Net increase in customer deposits  | 42,099                                     | 20,141         |
| Net decrease in short-term borrowings from the Federal Home Loan Bank and other borrowings | (32,416)                                   | (4,584)        |
| Proceeds of long-term Federal Home Loan Bank borrowings                                    |  | 19,309         |
| Repayment of long-term Federal Home Loan Bank borrowings                                   | (35,988)                                   | (19,605)       |
| Net decrease in advances from borrowers for taxes and insurance                            | (727)                                      | (662)          |
| Treasury stock acquired  | (101)                                      | (923)          |
| Exercise of stock options  | 115  | 10             |
| Tax benefit arising from stock compensation  | 6  |                |
| Common stock dividends paid  | (1,509)                                    | (1,593)        |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                                 | <b>(28,521)</b>                            | <b>12,093</b>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                | <b>1,682</b>                               | <b>(1,118)</b> |
| Cash and cash equivalents at beginning of period   | 2,719                                      | 5,680          |
| Cash and cash equivalents at end of period   | \$ 4,401                                   | \$ 4,562       |
| <b>Supplemental disclosure of cash flow information</b>                                    |  |                |
| Cash paid for  |  |                |
| Interest on deposits and borrowings  | \$ 10,630                                  | \$ 13,349      |
| Income taxes   | \$ 825                                     | \$ 1,007       |
| Non-cash transactions  |  |                |
| Capitalization of mortgage servicing rights  | \$ 426                                     | \$ 174         |
| Transfers from loans to foreclosed real estate   | \$ 3,163                                   | \$ 1,236       |

The accompanying notes are an integral part of these statements

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**TF FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements as of September 30, 2009 (unaudited) and December 31, 2008 and for the three and nine-month periods ended September 30, 2009 and 2008 (unaudited) include the accounts of TF Financial Corporation (the Company) and its wholly owned subsidiaries Third Federal Bank (the Bank), TF Investments Corporation and Penns Trail Development Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended September 30, 2009 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**NOTE 3 - CONTINGENCIES**

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

**NOTE 4 - OTHER COMPREHENSIVE INCOME**

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of other comprehensive income (loss) are as follows for the three months ended:

| <b>Before tax<br/>amount</b> | <b>September 30, 2009<br/>Tax<br/>(expense)<br/>benefit<br/>(in thousands)</b> | <b>Net of tax<br/>amount</b> |
|------------------------------|--|------------------------------|
|------------------------------|--|------------------------------|

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|   |    |       |    |       |    |       |
|---|----|-------|----|-------|----|-------|
| Unrealized gains on securities                              |    |       |    |       |    |       |
| Unrealized holding gains arising during period              | \$ | 1,749 | \$ | (590) | \$ | 1,159 |
| Pension plan benefit adjustment related to actuarial losses |    | 46    |    | (15)  |    | 31    |
| Other comprehensive income, net                             | \$ | 1,795 | \$ | (605) | \$ | 1,190 |

|   |                   | September 30, 2008    |    |                   |    |       |
|---|-------------------|-----------------------|----|-------------------|----|-------|
|   | Before tax amount | Tax (expense) benefit |    | Net of tax amount |    |       |
|   |                   | (in thousands)        |    |                   |    |       |
| Unrealized losses on securities   |                   |                       |    |                   |    |       |
| Unrealized holding losses arising during period                                     | \$                | (602)                 | \$ | 203               | \$ | (399) |
| Pension plan benefit adjustment related to prior service costs and actuarial losses |                   | 28                    |    | (9)               |    | 19    |
| Other comprehensive loss, net   | \$                | (574)                 | \$ | 194               | \$ | (380) |

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The components of other comprehensive income (loss) are as follows for the nine months ended:

|  | Before tax<br>amount | September 30, 2009<br>Tax<br>(expense)<br>benefit<br>(in thousands) | Net of tax<br>amount |
|--|----------------------|---|----------------------|
| Unrealized gains on securities                               |                      |   |                      |
| Unrealized holding gains arising during period               | \$ 2,878             | \$ (979)  | \$ 1,899             |
| Reclassification adjustment for gains realized in net income | (306)                | 104   | (202)                |
| Pension plan benefit adjustment related to actuarial losses  | 137                  | (50)  | 87                   |
| Other comprehensive income, net                              | \$ 2,709             | \$ (925)  | \$ 1,784             |

|   | Before tax<br>amount | September 30, 2008<br>Tax<br>(expense)<br>benefit<br>(in thousands) | Net of tax<br>amount |
|---|----------------------|---|----------------------|
| Unrealized losses on securities   |                      |   |                      |
| Unrealized holding losses arising during period                                     | \$ (680)             | \$ 230  | \$ (450)             |
| Pension plan benefit adjustment related to prior service costs and actuarial losses | 85                   | (29)  | 56                   |
| Other comprehensive loss, net   | \$ (595)             | \$ 201  | \$ (394)             |

**NOTE 5 EARNINGS PER SHARE**

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

|  | Income<br>(numerator) | Weighted<br>average<br>shares<br>(denominator) | Per share<br>Amount |
|--|-----------------------|--|---------------------|
| Three months ended September 30, 2009                                      |                       |  |                     |
| Basic earnings per share   |                       |  |                     |
| Income available to common stockholders                                    | \$ 1,112              | 2,523,429                                      | \$ 0.44             |
| Effect of dilutive securities  |                       |  |                     |
| Stock options and grants   |                       |  |                     |
| Diluted earnings per share   |                       |  |                     |
| Income available to common stockholders plus effect of dilutive securities | \$ 1,112              | 2,523,429                                      | \$ 0.44             |

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Nine months ended September 30, 2009

|   | Income<br>(numerator) | Weighted<br>average<br>shares<br>(denominator) | Per share<br>Amount |
|---|-----------------------|--|---------------------|
| Basic earnings per share  |                       |  |                     |
| Income available to common stockholders                                       | \$ 3,354              | 2,520,228                                      | \$ 1.33             |
| Effect of dilutive securities   |                       |  |                     |
| Stock options and grants  |                       |  |                     |
| Diluted earnings per share  |                       |  |                     |
| Income available to common stockholders plus<br>effect of dilutive securities | \$ 3,354              | 2,520,228                                      | \$ 1.33             |

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There were 256,883 options to purchase shares of common stock with exercise prices ranging from \$20.30 to \$34.14 per share which were outstanding during the three and nine months ended September 30, 2009 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

| <b>Three months ended September 30, 2008</b>                               |                               |  |                             |
|--|-------------------------------|--|-----------------------------|
|  | <b>Income<br/>(numerator)</b> | <b>Weighted<br/>average<br/>shares<br/>(denominator)</b> | <b>Per share<br/>Amount</b> |
| <b>Basic earnings per share</b>  |                               |  |                             |
| Income available to common stockholders                                    | \$ 1,250                      | 2,646,506  | \$ 0.47                     |
| <b>Effect of dilutive securities</b>                                       |                               |  |                             |
| Stock options and grants   |                               | 10,482   |                             |
| <b>Diluted earnings per share</b>  |                               |  |                             |
| Income available to common stockholders plus effect of dilutive securities | \$ 1,250                      | 2,656,988  | \$ 0.47                     |

| <b>Nine months ended September 30, 2008</b>                                |                               |  |                             |
|--|-------------------------------|--|-----------------------------|
|  | <b>Income<br/>(numerator)</b> | <b>Weighted<br/>average<br/>shares<br/>(denominator)</b> | <b>Per share<br/>Amount</b> |
| <b>Basic earnings per share</b>  |                               |  |                             |
| Income available to common stockholders                                    | \$ 3,715                      | 2,659,212  | \$ 1.40                     |
| <b>Effect of dilutive securities</b>                                       |                               |  |                             |
| Stock options and grants   |                               | 3,995  | (0.01)                      |
| <b>Diluted earnings per share</b>  |                               |  |                             |
| Income available to common stockholders plus effect of dilutive securities | \$ 3,715                      | 2,663,207  | \$ 1.39                     |

There were 204,773 options to purchase shares of common stock with exercise prices ranging from \$24.71 to \$34.14 per share which were outstanding during the three and nine months ended September 30, 2008 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

**NOTE 6 INVESTMENT AND MORTGAGE-BACKED SECURITIES**

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities at September 30, 2009 and December 31, 2008, are summarized as follows:

| <b>September 30, 2009</b> |                                       |  |                       |
|---------------------------|---------------------------------------|--|-----------------------|
| <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Fair<br/>value</b> |

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|   | (in thousands) |        |    |       |    |     |        |        |
|---|----------------|--------|----|-------|----|-----|--------|--------|
| Investment securities available for sale                  |                |        |    |       |    |     |        |        |
| Corporate debt securities                                 | \$             | 3,340  | \$ | 188   | \$ | \$  | 3,528  |        |
| State and political subdivisions                          |                | 29,309 |    | 1,465 |    |     | 30,774 |        |
| Equity securities   |                | 150    |    |       |    |     | 150    |        |
|   | \$             | 32,799 | \$ | 1,653 | \$ | \$  | 34,452 |        |
| Residential mortgage-backed securities held to maturity   |                |        |    |       |    |     |        |        |
|   | \$             | 3,938  | \$ | 310   | \$ | \$  | 4,248  |        |
| Residential mortgage-backed securities available for sale |                |        |    |       |    |     |        |        |
|   | \$             | 91,241 | \$ | 3,450 | \$ | 441 | \$     | 94,250 |



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|  | Amortized<br>cost | December 31, 2008            |                               | Fair<br>value |
|--|-------------------|------------------------------|-------------------------------|---------------|
|  |                   | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |               |
| (in thousands)   |                   |                              |                               |               |
| <b>Investment securities available for sale</b>                |                   |                              |                               |               |
| U.S. Government and federal agencies                           | \$ 2,944          | \$ 229                       | \$                            | \$ 3,173      |
| Corporate debt securities                                      | 3,340             |                              | (55)                          | 3,285         |
| State and political subdivisions                               | 24,532            | 530                          | (66)                          | 24,996        |
| Equity securities  | 150               | 15                           |                               | 165           |
|  | \$ 30,966         | \$ 774                       | \$ (121)                      | \$ 31,619     |
| <b>Residential mortgage-backed securities held to maturity</b> |                   |                              |                               |               |
| Residential mortgage-backed securities held to maturity        | \$ 4,774          | \$ 222                       | \$                            | \$ 4,996      |
| Residential mortgage-backed securities held to maturity        | \$ 105,780        | \$ 1,822                     | \$ (385)                      | \$ 107,217    |

The Company also holds stock in the Federal Home Loan Bank of Pittsburgh ( FHLB ) totaling \$9.9 million as of September 30, 2009 and December 31, 2008. The Company is required to maintain a minimum amount of FHLB stock as determined by its borrowing levels. FHLB stock can only be repurchased by the FHLB or sold to another member, and all sales must be at par. The Company holds FHLB stock as a long term investment based on the ultimate recoverability of the par value. During the fourth quarter of 2008, the FHLB suspended the repurchase of stock and dividend payments which prompted the Company to give consideration to evaluating the potential impairment of the investment. The Company evaluates potential impairment of its investment in FHLB stock quarterly and considers the following :1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the duration of this condition, 2) the ability of the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, 3) the impact of regulatory changes on the FHLB and on its members, and 4) the liquidity position of the FHLB. After evaluating these factors the Company has concluded that the par value of its investment in FHLB stock is recoverable and no impairment has been recorded during the nine months ended September 30, 2009.

The table below indicates the length of time individual securities, both held to maturity and available for sale, have been in a continuous unrealized loss position at September 30, 2009:

| Description of Securities  | Number<br>of<br>Securities | Less than<br>12 months |                    | 12 months<br>or longer |                    | Total         |                    |
|--|----------------------------|------------------------|--------------------|------------------------|--------------------|---------------|--------------------|
|  |                            | Fair<br>Value          | Unrealized<br>Loss | Fair<br>Value          | Unrealized<br>Loss | Fair<br>value | Unrealized<br>Loss |
| (in thousands)   |                            |                        |                    |                        |                    |               |                    |
| Residential mortgage-backed securities issued by quasi-governmental agencies | 1                          | 2,497                  | (37)               |                        |                    | 2,497         | (37)               |
| Residential real estate mortgage-backed securities privately issued          | 4                          | 3,984                  | (75)               | 2,726                  | (329)              | 6,710         | (404)              |
| Total temporarily impaired securities  | 5                          | \$ 6,481               | \$ (112)           | \$ 2,726               | \$ (329)           | \$ 9,207      | \$ (441)           |



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The table below indicates the length of time individual securities, both held to maturity and available for sale, have been in a continuous unrealized loss position at December 31, 2008:

| Description of Securities  | Number of Securities | Less than 12 months |                 | 12 months or longer |                 | Total      |                 |
|--|----------------------|---------------------|-----------------|---------------------|-----------------|------------|-----------------|
|  |                      | Fair Value          | Unrealized Loss | Fair Value          | Unrealized Loss | Fair value | Unrealized Loss |
|  |                      |                     |                 | (in thousands)      |                 |            |                 |
| Corporate debt securities  | 1                    | \$ 3,285            | \$ (55)         | \$                  | \$              | \$ 3,285   | \$ (55)         |
| State and political subdivisions   | 4                    | 2,392               | (18)            | 1753                | (48)            | 4,145      | (66)            |
| Residential mortgage-backed securities issued by quasi-governmental agencies | 1                    | 19                  | (1)             |                     |                 | 19         | (1)             |
| Residential real estate mortgage-backed securities privately issued          | 1                    |                     |                 | 6,480               | (384)           | 6,480      | (384)           |
| Total temporarily impaired securities  |                      |                     |                 |                     |                 |            |                 |