

TF FINANCIAL CORP
Form 10-K
March 27, 2013

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from _____ to _____

Commission file number: 0-24168

TF FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$.10 per share

Name of each exchange on which registered
The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

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Exchange Act. YES NO

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's Common Stock as quoted on the Nasdaq System on June 30, 2012, was \$48.4 million (1,964,609 shares at \$24.66 per share).

As of March 10, 2013 there were outstanding 2,839,931 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended December 31, 2012. (Parts I, II and IV)
2. Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders. (Part III)

PART I

TF FINANCIAL CORPORATION (THE “COMPANY”) MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL “FORWARD-LOOKING STATEMENTS”, INCLUDING STATEMENTS CONTAINED IN THE COMPANY’S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS HERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY’S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY’S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY’S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS’ PRODUCTS AND SERVICES; THE IMPACT OF CHANGES IN FINANCIAL SERVICES’ LAWS AND REGULATIONS (INCLUDING THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT AND OTHER LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; OUR ABILITY TO REALIZE THE ANTICIPATED BENEFITS FROM OUR ACQUISITION OF ROEBLING FINANCIAL CORP, INC.; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; AND THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS INVOLVED IN THE FOREGOING.

THE COMPANY CAUTIONS THAT THE FOREGOING LIST OF IMPORTANT FACTORS IS NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

Item 1.

Business

BUSINESS OF THE COMPANY

On July 13, 1994, the Company consummated its public offering of 5,290,000 shares of its common stock and acquired 3rd Fed Bank (the “Bank”) as part of the Bank’s mutual-to-stock conversion. The Company was originally incorporated under Delaware law in March 1994 and subsequently reorganized as a Pennsylvania Corporation in May 2011. In 2011, the Bank elected to convert from a federally-regulated and chartered financial institution to a state-chartered savings bank and submitted an election to remain a savings association for purposes of holding company regulation following the conversion. The Bank received approval for this conversion from the State of Pennsylvania on December 27, 2011. The official charter conversion became effective January 30, 2012. As a result, the name of the Bank was changed from Third Federal Bank to 3rd Fed Bank.

The Company is a savings and loan holding company and is subject to regulation by the Pennsylvania Department of Banking and Securities (the “Department of Banking”), the Board of Governors of the Federal Reserve System (the “FRB”), and the Securities and Exchange Commission (the “SEC”). The Company does not transact any material business other than through its direct and indirect subsidiaries: 3rd Fed Bank, Teragon Financial Corporation, Penns Trail Development Corporation, and Third Delaware Corporation. At December 31, 2012, the Company had total assets of \$711.8 million, total liabilities of \$628.9 million and stockholders’ equity of \$82.9 million.

BUSINESS OF THE BANK

The Bank is a community oriented Pennsylvania-chartered stock savings bank offering a variety of financial services to meet the needs of the communities it serves. The Bank’s deposits are insured up to the maximum amount allowable by the Federal Deposit Insurance Corporation (the “FDIC”).

As of December 31, 2012 the Bank operated thirteen branch offices in Bucks and Philadelphia Counties, Pennsylvania and in Mercer County, New Jersey.

The Bank attracts deposits from the general public and uses such deposits, together with borrowings and other funds primarily to originate or purchase loans secured by first mortgages on owner-occupied, one-to four-family residences in its market area and to invest in mortgage-backed and investment securities. At December 31, 2012, one-to four-family residential mortgage loans totaled \$324.4 million or 61% of the Bank's total loan portfolio. At that same date, the Bank had approximately \$44.6 million or 6% of total assets invested in mortgage-backed securities and \$59.6 million or 8% of total assets in investment securities. The Bank also originates commercial real estate and multi-family, construction and consumer loans.

The Bank has two subsidiaries, Third Delaware Corporation, which was incorporated in 1998 for the purpose of holding and managing mortgage-backed securities and investment securities for the Bank, and Teragon Financial Corporation which holds a 75% limited partnership interest in a captive title insurance agency, Third Fed Abstract, L. P. During 2007, Teragon Financial Corporation was granted approval by the Commonwealth of Pennsylvania to conduct business as an insurance agency.

Pending Acquisition of Roebing Financial Corp, Inc.

On December 28, 2012, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Roebing Financial Corp, Inc. ("Roebing"), the parent company of Roebing Bank, under which the Company will acquire Roebing for approximately \$14.5 million in stock and cash.

Under the terms of the Merger Agreement, Roebing will merge with and into the Company (the "Merger") after which Roebing Bank will merge with and into the Bank. Each outstanding share of Roebing common stock will be converted into the right to receive \$8.60 per share or 0.364 shares of the Company's common stock, at the election of Roebing shareholders, subject to proration. The aggregate cash consideration to be paid pursuant to the Merger Agreement must not exceed 50% of the total merger consideration (including any cash paid in connection with shares held by the employee stock ownership plan and not allocated to participant accounts). Cash will be paid in lieu of fractional shares at a value based on the average closing sale price of the Company's common stock for the twenty trading days immediately prior to the closing date.

In the event of a greater than 15% decline in market value of the Company's common stock immediately prior to the announcement of the Merger, which percentage decline exceeds any decline in the NASDAQ Bank Index from its starting point by more than 15%, Roebing may be able to terminate the Merger Agreement unless the Company increases the number of shares into which Roebing common stock may be converted.

The Merger is intended to qualify as a tax-free reorganization for federal income tax purposes. As a result, the shares of Roebing exchanged for the Company's shares will be transferred on a tax-free basis. The Merger is expected to close during the second or third quarter of 2013. If the Merger is not consummated under certain circumstances, Roebing has agreed to pay the Company a termination fee of \$650,000.

Market Area

The Bank offers a wide range of consumer and business products at its thirteen full service branch offices located in Bucks and Philadelphia Counties in Pennsylvania, and Mercer County in New Jersey. Five of the branch offices are located in Bucks County, the third wealthiest county in Pennsylvania. Bucks County is a growing region offering opportunity for growth for the Bank. Six branches are located in the northeast section of Philadelphia where the Bank

was founded. Although Philadelphia County is experiencing population decline, the Bank's branches in this section of Philadelphia represent a deposit stronghold. The remaining two branches are in Mercer County, New Jersey, which has an expanding population and represents another growth area for the Bank.

Competition

The Bank faces varying degrees of competition from banks, thrift institutions and credit unions at its various branch locations. Stronger competition has come from local and very large regional commercial banks based in and around the Philadelphia area. Based upon the latest available data, at June 30, 2012 the Company's share of deposits in each of the counties in which it operates was as follows:

County, State	Market Share for Entire County	Market Share for ZIP Codes Including Company Branches
Philadelphia, Pennsylvania	0.51%	9.66%
Bucks, Pennsylvania	1.45%	4.48%
Mercer, New Jersey	0.75%	6.44%

Lending Activities

General. The Bank's loan portfolio composition consists primarily of adjustable-rate ("ARM") and fixed-rate first mortgage loans secured by one-to four-family residences. The Bank also makes commercial real estate and multi-family loans, construction loans and consumer and other loans. At December 31, 2012, the Bank's mortgage loans outstanding were \$486.1 million, of which \$324.4 million were secured by first mortgages on one-to four-family residential property. Of the one-to four-family residential mortgage loans outstanding at that date, 14% were ARMs and 86% were fixed-rate loans. At that same date, commercial loans secured by real estate totaled \$145.5 million, and construction loans totaled \$16.3 million. The construction loans are predominately floating-rate, prime-rate-based loans.

Consumer and other loans held by the Bank totaled \$42.0 million or 8% of total loans outstanding at December 31, 2012, of which \$40.1 million consisted of home equity and second mortgage loans. At that same date commercial business loans totaled \$4.6 million or 1% of total loans.

The following table sets forth the composition of the Bank's loan portfolio and mortgage-backed and related securities portfolios in dollar amounts and in percentages of the respective portfolios at the dates indicated.

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	2012		2011		At December 31, 2010		2009		2008	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)										
Loans receivable:										
Mortgage loans:										
Residential mortgages	\$323,665	60.84 %	\$277,824	55.44 %	\$269,077	52.84 %	\$271,651	50.85 %	\$281,870	51.48 %
Commercial – real estate secured	145,454	27.34 %	156,450	31.22 %	163,910	32.19 %	168,098	31.46 %	168,231	30.73 %
Construction loans	16,288	3.06 %	16,336	3.26 %	18,799	3.69 %	29,671	5.55 %	30,633	5.60 %
Total mortgage loans	485,407	91.24 %	450,610	89.92 %	451,786	88.72 %	469,420	87.86 %	480,734	87.81 %
Consumer loans:										
Home equity and second mortgage	40,143	7.55 %	44,165	8.81 %	49,430	9.71 %	54,811	10.26 %	56,233	10.27 %
Other consumer	1,835	0.34 %	1,971	0.39 %	2,407	0.47 %	2,565	0.48 %	2,287	0.42 %
Total consumer and other loans	41,978	7.89 %	46,136	9.20 %	51,837	10.18 %	57,376	10.74 %	58,520	10.69 %
Commercial loans:										