

TF FINANCIAL CORP
Form 10-Q
August 14, 2013

UNITED STATES
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 June 30, 2013

- or -

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

For the transition period from _____ to _____

Commission file number: 0-24168

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

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 ☐

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

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

Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 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: August 14, 2013

Class	Outstanding
\$.10 par value common stock	3,150,439 shares

CONTENTS

PART I-CONSOLIDATED FINANCIAL INFORMATION

Item 1.	<u>Consolidated Financial Statements (Unaudited)</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 4.	<u>Controls and Procedures</u>	42

PART II-OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	43
Item 1A.	<u>Risk Factors</u>	43
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	<u>Defaults Upon Senior Securities</u>	43
Item 4.	<u>Mine Safety Disclosures</u>	43
Item 5.	<u>Other Information</u>	43
Item 6.	<u>Exhibits</u>	43

Signatures	44
------------	----

Exhibits

31.1	<u>Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of CFO pursuant of Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.	<u>Certification pursuant of Section 906 of the Sarbanes-Oxley Act of 2002</u>

The following Exhibits are being furnished as part of this report:

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART I-CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	At June 30, 2013	December 31, 2012 (in thousands)
ASSETS		
Cash and cash equivalents	\$ 44,958	\$ 31,137
Investment securities		
Available for sale	97,142	102,284
Held to maturity (fair value of \$1,906 and \$2,271 as of June 30, 2013 and December 31, 2012, respectively)	1,677	1,965
Loans receivable, net	523,039	526,720
Loans receivable, held for sale	1,509	706
Federal Home Loan Bank ("FHLB") stock — at cost	3,846	5,431
Accrued interest receivable	2,422	2,460
Premises and equipment, net	6,546	6,108
Goodwill	4,324	4,324
Bank owned life insurance	18,140	19,109
Other assets	11,178	11,592
TOTAL ASSETS	\$ 714,781	\$ 711,836
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	\$ 571,412	\$ 560,315
Advances from the FHLB	52,534	60,656
Advances from borrowers for taxes and insurance	3,295	2,880
Accrued interest payable	888	817
Other liabilities	3,199	4,223
Total liabilities	631,328	628,891
Stockholders' equity		
Preferred stock, no par value; 2,000,000 shares authorized at June 30, 2013 and December 31, 2012, none issued	—	—
Common stock, \$0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,842,095 and 2,838,493 shares outstanding at June 30, 2013 and December 31, 2012, respectively, net of shares in treasury of 2,447,905 and 2,451,507, respectively.	529	529
Additional paid-in capital	54,581	54,328
Unearned ESOP shares	(908)	(970)
Treasury stock — at cost	(50,821)	(50,896)
Retained earnings	81,733	78,984
Accumulated other comprehensive (loss) income	(1,661)	970
Total stockholders' equity	83,453	82,945

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	714,781	\$	711,836
--	----	---------	----	---------

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 ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Interest income				
Loans, including fees	\$5,963	\$6,231	\$12,029	\$12,428
Investment securities				
Fully taxable	355	667	724	1,296
Exempt from federal taxes	412	430	830	865
Interest-bearing deposits and other	14	—	18	2
TOTAL INTEREST INCOME	6,744	7,328	13,601	14,591
Interest expense				
Deposits	712	926	1,443	1,992
Borrowings	226	351	474	756
TOTAL INTEREST EXPENSE	938	1,277	1,917	2,748
NET INTEREST INCOME	5,806	6,051	11,684	11,843
Provision for loan losses	400	500	839	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,406	5,551	10,845	10,843
Noninterest income				
Service fees, charges and other operating income	650	373	1,177	857
Bank owned life insurance	137	152	280	304
Bank owned life insurance death benefit proceeds	934	—	934	—
Gain on sale of loans	226	214	531	538
Gain on disposition of premises and equipment	—	—	420	277
TOTAL NONINTEREST INCOME	1,947	739	3,342	1,976
Noninterest expense				
Compensation and benefits	2,842	2,697	5,659	5,571
Occupancy and equipment	709	672	1,406	1,382
Federal deposit insurance premiums	132	150	242	301
Merger-related costs	295	—	615	—
Professional fees	230	174	518	525
Marketing and advertising	132	106	171	191
Foreclosed real estate expense	235	340	459	627
Other operating	557	510	1,092	1,108
TOTAL NONINTEREST EXPENSE	5,132	4,649	10,162	9,705
INCOME BEFORE INCOME TAXES	2,221	1,641	4,025	3,114
Income tax expense	421	392	1,002	710
NET INCOME	\$1,800	\$1,249	\$3,023	\$2,404
Earnings per share—basic	\$0.66	\$0.46	\$1.10	\$0.88
Earnings per share—diluted	\$0.66	\$0.46	\$1.10	\$0.88
Dividends paid per share	\$0.05	\$0.05	\$0.10	\$0.10
Weighted average shares outstanding:				
Basic	2,743	2,724	2,741	2,721
Diluted	2,743	2,728	2,741	2,725

The accompanying notes are an integral part of these statements

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Net income	\$1,800	\$1,249	\$3,023	\$2,404
Other comprehensive (loss) income:				
Investment securities available for sale:				
Unrealized holding (losses) gains	(2,845)	429	(4,118)	326
Tax effect	967	(146)	1,400	(111)
Net of tax amount	(1,878)	283	(2,718)	215
Pension plan benefit adjustment:				
Related to actuarial losses and prior service cost	66	71	132	143
Tax effect	(22)	(24)	(45)	(49)
Net of tax amount	44	47	87	94
Total other comprehensive (loss) income	(1,834)	330	(2,631)	309
Comprehensive (loss) income	\$(34)	\$1,579	\$392	\$2,713

The accompanying notes are an integral part of these statements

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)For the six months ended
June 30,
2013 2012
(in thousands)

OPERATING ACTIVITIES

Net income	\$3,023	\$2,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment adjustment of mortgage loan servicing rights	(77)	188
Premiums and discounts on investment securities, net	144	119
Premiums and discounts on mortgage-backed securities, net	208	146
Deferred loan origination costs, net	105	145
Provision for loan losses	839	1,000
Depreciation of premises and equipment	334	396
Increase in value of bank owned life insurance	(280)	(304)
Income from life insurance death benefit	(934)	—
Stock-based compensation	380	246
Proceeds from sale of loans originated for sale	21,088	26,047
Origination of loans held for sale	(21,580)	(26,836)
Loss on foreclosed real estate	375	425
Gain on sale of:		
Loans held for sale	(531)	(538)
Disposition of premises and equipment	—	(277)
Disposition of real-estate	(420)	—
Decrease (increase) in:		
Accrued interest receivable	38	21
Other assets	(93)	260
Increase in:		
Accrued interest payable	71	46
Other liabilities	157	242
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,847	3,730

INVESTING ACTIVITIES

Loan originations	(56,636)	(66,089)
Loan principal payments	59,116	44,945
Proceeds from sale of foreclosed real estate	987	6,570
Proceeds from disposition of premises and equipment	417	356
Proceeds from maturities of investment securities available for sale	2,545	3,420
Proceeds from bank-owned life insurance	2,183	—
Principal repayments on mortgage-backed securities held to maturity	294	237
Principal repayments on mortgage-backed securities available for sale	10,889	13,420
Purchase of investment securities available for sale	(10,902)	(4,260)
Purchase of mortgage-backed securities available for sale	(1,867)	(13,520)

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

Purchase of premises and equipment	(767)	(311)
Redemption of FHLB stock	1,585	747
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	7,844	(14,485)

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	2013	2012
	(in thousands)	
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	11,097	(4,248)
Net (decrease) increase in short-term FHLB borrowings	(8,122)	7,440
Proceeds of long-term FHLB borrowings	—	8,197
Repayment of long-term FHLB borrowings	—	(11,461)
Net increase in advances from borrowers for taxes and insurance	415	531
Exercise of stock options	13	7
Tax benefit arising from exercise of stock options	1	(1)
Common stock dividends paid	(274)	(271)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,130	194
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,821	(10,561)
Cash and cash equivalents at beginning of period	31,137	14,928
Cash and cash equivalents at end of period	\$44,958	\$4,367
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest on deposits and borrowings	\$1,846	\$2,702
Income taxes	\$575	\$375
Noncash transactions:		
Capitalization of mortgage servicing rights	\$220	\$267
Transfers from loans to foreclosed real estate	\$257	\$1,889

The accompanying notes are an integral part of these statements

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of June 30, 2013 (unaudited) and December 31, 2012 and for the three and six-month periods ended June 30, 2013 and 2012 (unaudited) include the accounts of TF Financial Corporation (the “Company”) and its wholly owned subsidiaries: 3rd Fed Bank (the “Bank”) and Penns Trail Development Corporation. The accompanying consolidated balance sheet at December 31, 2012, has been derived from the audited consolidated balance sheet but does not include all of the information and notes required by accounting principles generally accepted in the United States of America (“US GAAP”) for complete financial statements. 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 the instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by US 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 June 30, 2013 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, 2012.

NOTE 3 — RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under US GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has provided the necessary disclosures in Note 6 – Accumulated Other Comprehensive (Loss) Income.

In February 2013, FASB issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The objective of the amendments in this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. Examples of obligations within the scope of this update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. US GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay

among its co-obligors, on the basis of the guidance for contingent liabilities. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

NOTE 4 — 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.

Table of Contents

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):

	For the three months ended June 30, 2013		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	\$ 1,800	2,743,427	\$0.66
Effect of dilutive securities			
Stock options and grants	—	—	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 1,800	2,743,427	\$0.66
	For the six months ended June 30, 2013		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	\$3,023	2,740,915	\$ 1.10
Effect of dilutive securities			
Stock options and grants	—	—	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$3,023	2,740,915	\$ 1.10

There were 30,388 options to purchase shares of common stock at a price range of \$25.71 to \$32.51 per share which were outstanding during the three and six months ended June 30, 2013 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.

Table of Contents

	For the three months ended June 30, 2012		
	Income	Weighted	Per share
	(numerator)	average shares	Amount
		(denominator)	
Basic earnings per share			
Income available to common stockholders	\$ 1,249	2,723,683	\$0.46
Effect of dilutive securities			
Stock options and grants	—	4,324	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 1,249	2,728,007	\$0.46
	For the six months ended June 30, 2012		
	Income	Weighted	Per share
	(numerator)	average shares	Amount
		(denominator)	
Basic earnings per share			
Income available to common stockholders	\$2,404	2,721,261	\$0.88
Effect of dilutive securities			
Stock options and grants	—	3,945	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$2,404	2,725,206	\$0.88

There were 44,132 options to purchase shares of common stock at a price range of \$25.71 to \$32.51 per share which were outstanding during the three and six months ended June 30, 2012 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.

Table of Contents

NOTE 6 — ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The activity in accumulated other comprehensive (loss) income for the three months ended June 30, 2013 and 2012 is as follows:

	Accumulated Other Comprehensive (Loss) Income (1), (2)		
	Unrealized gains (losses) on securities available for sale	Defined benefit pension plan (in thousands)	Total
Balance at March 31, 2013	\$2,965	\$(2,792)	\$173
Other comprehensive loss before reclassifications	(1,878)	—	(1,878)
Amounts reclassified from accumulated other comprehensive income	—	44	44
Period change	(1,878)	44	(1,834)
Balance at June 30, 2013	\$1,087	\$(2,748)	\$(1,661)
Balance at March 31, 2012	\$3,581	\$(2,856)	\$725
Other comprehensive income before reclassifications	283	—	283
Amounts reclassified from accumulated other comprehensive income	—	47	47
Period change	283	47	330
Balance at June 30, 2012	\$3,864	\$(2,809)	\$1,055

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a Federal income tax rate of 34%.

(2) Amounts in parentheses indicate debits.

	Amount reclassified from accumulated other comprehensive income For the three months ended June 30, (2) 2013 2012 (in thousands)		Affected line item in the consolidated statements of net income
Defined benefit pension plan (1)			
Amortization of net actuarial loss	\$66	\$71	Compensation and benefits
Related income tax expense	(22)	(24)	Income tax expense
Net effect on accumulated other comprehensive income for the period	\$44	\$47	Net income

(1) Included in the computation of net periodic pension cost. See Note 11 – Employee Benefit Plans for additional detail.

(2) Amounts in parentheses indicate debits.

The activity in accumulated other comprehensive (loss) income for the six months ended June 30, 2013 and 2012 is as follows:

	Accumulated Other Comprehensive (Loss) Income (1), (2)		
	Unrealized gains (losses) on securities available for sale	Defined benefit pension plan (in thousands)	Total
Balance at December 31, 2012	\$3,805	\$(2,835)	\$970
Other comprehensive loss before reclassifications	(2,718)	—	(2,718)
Amounts reclassified from accumulated other comprehensive income	—	87	87
Period change	(2,718)	87	(2,631)
Balance at June 30, 2013	\$1,087	\$(2,748)	\$(1,661)
Balance at December 31, 2011	\$3,649	\$(2,903)	\$746
Other comprehensive income before reclassifications	215	—	215
Amounts reclassified from accumulated other comprehensive income	—	94	94
Period change	215	94	309
Balance at June 30, 2012	\$3,864	\$(2,809)	\$1,055

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a Federal income tax rate of 34%.

(2) Amounts in parentheses indicate debits.

	Amount reclassified from accumulated other comprehensive income For the six months ended June 30, (2) 2013 2012 (in thousands)		Affected line item in the consolidated statements of net income
Defined benefit pension plan (1)			
Amortization of net actuarial loss	\$132	\$143	Compensation and benefits
Related income tax expense	(45)	(49)	Income tax expense
Net effect on accumulated other comprehensive income for the period	\$87	\$94	Net income

(1) Included in the computation of net periodic pension cost. See Note 11 – Employee Benefit Plans for additional detail.

(2) Amounts in parentheses indicate debits.

Table of Contents

NOTE 7 — INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities are summarized as follows:

		At June 30, 2013		
	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses (in thousands)	Fair value
Available for sale				
U.S. Government and federal agencies	\$7,000	\$—	\$(284)	\$6,716
State and political subdivisions	56,467	1,986	(555)	57,898
Residential mortgage-backed securities issued by quasi-governmental agencies	32,028	570	(70)	32,528
Total investment securities available for sale	95,495	2,556	(909)	97,142
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	1,677	229	—	1,906
Total investment securities	\$97,172	\$2,785	\$(909)	\$99,048

		At December 31, 2012		
	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses (in thousands)	Fair value
Available for sale				
State and political subdivisions	\$55,254	\$4,360	\$(4)	\$59,610
Residential mortgage-backed securities issued by quasi-governmental agencies	41,265	1,409	—	42,674
Total investment securities available for sale	96,519	5,769	(4)	102,284
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	1,965	306	—	2,271
Total investment securities	\$98,484	\$6,075	\$(4)	\$104,555

There were no sales of investment securities during the three and six months ended June 30, 2013 or 2012.

Table of Contents

The amortized cost and fair value of investment and mortgage-backed securities, by contractual maturity, are shown below.

	At June 30, 2013			
	Available for sale Amortized cost	Fair value (in thousands)	Held to maturity Amortized cost	Fair value
Investment securities				
Due in one year or less	\$1,652	\$1,698	\$—	\$—
Due after one year through five years	10,940	11,380	—	—
Due after five years through ten years	29,275	29,441	—	—
Due after ten years	21,600	22,095	—	—
	63,467	64,614	—	—
Mortgage-backed securities	32,028	32,528	1,677	1,906
Total investment and mortgage-backed securities	\$95,495	\$97,142	\$1,677	\$1,906

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2013:

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
		(dollars in thousands)					
U.S. Government and federal agencies	2	\$ 6,716	\$ (284)	\$ —	\$ —	\$ 6,716	\$ (284)
State and political subdivisions	14	12,644	(555)	—	—	12,644	(555)
Residential mortgage-backed securities issued by quasi-governmental agencies	4	8,814	(70)	—	—	8,814	(70)
Total temporarily impaired securities	20	\$ 28,174	\$ (909)	\$ —	\$ —	\$ 28,174	\$ (909)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2012:

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		
(dollars in thousands)							
State and political subdivisions	1	\$ 617	\$ (4)	\$ —	\$ —	\$ 617	\$ (4)

Total temporarily impaired securities	1	\$ 617	\$ (4)	\$ —	\$ —	\$ 617	\$ (4)
--	---	--------	---------	------	------	--------	---------

On a quarterly basis, temporarily impaired securities are evaluated to determine whether such impairment is an other-than-temporary impairment (“OTTI”). The Company has performed this evaluation and has determined that the unrealized losses at June 30, 2013 and December 31, 2012, respectively, are not considered other-than-temporary but are the result of changes in interest rates, and are therefore reflected in other comprehensive (loss) income.

Table of Contents

NOTE 8 — LOANS RECEIVABLE

Loans receivable are summarized as follows:

	June 30, 2013	At December 31, 2012 (in thousands)
Held for investment:		
Residential		
Residential mortgages	\$ 327,088	\$ 323,665
Commercial		
Real estate-commercial	107,439	104,766
Real estate-residential	20,604	21,570
Real estate-multi-family	16,485	19,118
Construction loans	10,350	16,288
Commercial and industrial loans	5,191	4,646
Total commercial loans	160,069	166,388
Consumer		
Home equity and second mortgage	39,429	40,143
Other consumer	1,657	1,835
Total consumer loans	41,086	41,978
Total loans	528,243	532,031
Net deferred loan origination costs and unamortized premiums	1,712	1,611
Less allowance for loan losses	(6,916)	(6,922)
Total loans receivable	\$ 523,039	\$ 526,720
Held for sale:		
Residential		
Residential mortgages	\$ 1,509	\$ 706

Table of Contents

The following tables present by credit quality indicators the composition of the commercial loan portfolio:

At June 30, 2013					
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	\$94,251	\$4,132	\$ 9,056	\$ —	\$ 107,439
Real estate-residential	19,177	371	1,056	—	20,604
Real estate-multi-family	13,141	—	3,344	—	16,485
Construction loans	3,855	3,551	2,944	—	10,350
Commercial and industrial loans	5,107	75	9	—	5,191
Total	\$ 135,531	\$ 8,129	\$ 16,409	\$ —	\$ 160,069

At December 31, 2012					
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	\$ 91,446	\$ 4,192	\$ 9,128	\$ —	\$ 104,766
Real estate-residential	19,244	1,018	1,308	—	21,570
Real estate-multi-family	15,751	—	3,367	—	19,118
Construction loans	7,397	4,097	4,794	—	16,288
Commercial and industrial loans	4,565	81	—	—	4,646
Total	\$ 138,403	\$ 9,388	\$ 18,597	\$ —	\$ 166,388

In order to assess and monitor the credit risk associated with commercial loans, the Company employs a risk rating methodology whereby each commercial loan is initially assigned a risk grade. At least annually, all risk ratings are reviewed in light of information received such as tax returns, rent rolls, cash flow statements, appraisals, and any other information which may affect the then current risk rating, which is adjusted upward or downward as needed. At the end of each quarter the risk ratings are summarized and become a component of the evaluation of the allowance for loan losses. The Company's risk rating definitions mirror those promulgated by banking regulators and are as follows:

Pass: A good quality loan characterized by satisfactory liquidity; reasonable debt capacity and coverage; acceptable management in all critical positions and normal operating results for its peer group. The Company has grades 1 through 6 within the Pass category which reflect the increasing amount of attention paid to the individual loan because of, among other things, trends in debt service coverage, management weaknesses, or collateral values.

Special mention: A loan that has potential weaknesses that deserves management's close attention. Although the loan is currently protected, if left uncorrected, potential weaknesses may result in the deterioration of the loan's repayment prospects or in the borrower's future credit position. Potential weaknesses include: weakening financial condition; an unrealistic repayment program; inadequate sources of funds; lack of adequate collateral; credit information; or documentation. There is currently the capacity to meet interest and principal payments, but further adverse business, financial, or economic conditions may impair the borrower's capacity or willingness to pay interest and repay principal.

Substandard: A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Although no loss of principal or interest is presently apparent, there is the distinct possibility that a partial loss of interest and/or principal will be sustained if the deficiencies are not corrected. There is a current identifiable vulnerability to default

and the dependence upon favorable business, financial, or economic conditions to meet timely payment of interest and repayment of principal.

Doubtful: A loan which has all the weaknesses inherent in a substandard asset 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

Table of Contents

and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to strengthen the asset, classification as an estimated loss is deferred until a more exact status is determined. Pending factors include: proposed merger, acquisition, liquidation, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss: Loans which are considered uncollectible and have been charged off. The Company has charged-off all loans classified as loss.

Loans classified as special mention, substandard or doubtful are evaluated for potential impairment. All impaired loans are placed on nonaccrual status and are classified as substandard or doubtful.

The following tables present by credit quality indicator the composition of the residential mortgage and consumer loan portfolios:

		At June 30, 2013	
	Performing	Nonperforming	Total
		(in thousands)	
Residential mortgages	\$325,157	\$ 1,931	\$327,088
Home equity and second mortgage	39,286	143	39,429
Other consumer	1,655	2	1,657
Total	\$366,098	\$ 2,076	\$368,174

		At December 31, 2012	
	Performing	Nonperforming	Total
		(in thousands)	
Residential mortgages	\$321,400	\$ 2,265	\$323,665
Home equity and second mortgage	40,000	143	40,143
Other consumer	1,827	8	1,835
Total	\$363,227	\$ 2,416	\$365,643

In order to assess and monitor the credit risk associated with residential mortgage loans and consumer loans which include second mortgage loans and home equity secured lines of credit, the Company relies upon the payment status of the loan. Residential mortgage and other consumer loans 90 days or more past due are placed on nonaccrual status, classified as nonperforming, and evaluated for impairment.

Table of Contents

The following table presents by class nonperforming loans including impaired loans and loan balances 90 days or more past due for which the accrual of interest has been discontinued:

	June 30, 2013	At December 31, 2012
	(in thousands)	
Residential		
Residential mortgages	\$ 1,931	\$ 2,265
Commercial		
Real estate-commercial	552	1,098
Real estate-residential	392	51
Construction loans	2,944	4,794
Commercial and industrial loans	9	—
Consumer		
Home equity and second mortgage	143	143
Other consumer	2	8
Total nonperforming loans	\$ 5,973	\$ 8,359
Total loans past due 90 days as to interest or principal and accruing interest	\$ —	\$ —

Table of Contents

The following tables present by class loans individually evaluated for impairment:

	At June 30, 2013				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	\$1,781	\$1,781	\$190	\$2,010	\$—
Commercial					
Real estate-commercial	—	—	—	182	—
Construction loans	2,944	3,142	2,000	2,944	—
	4,725	4,923	2,190	5,136	—
With no allowance recorded:					
Commercial					
Real estate-commercial	552	552	—	552	—
Real estate-residential	392	392	—	181	—
	944	944	—	733	—
Total	\$5,669	\$5,867	\$2,190	\$5,869	\$—

	At December 31, 2012				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	\$2,137	\$2,214	\$218	\$2,061	\$—
Commercial					
Real estate-commercial	546	1,497	296	697	—
Real estate-residential	51	51	4	298	—
Construction loans	4,737	5,137	1,029	3,604	—
Commercial and industrial loans	—	—	—	2	—
	7,471	8,899	1,547	6,662	—
With no allowance recorded:					
Residential					
Residential mortgages	—	—	—	698	—
Commercial					
Real estate-commercial	552	552	—	1,012	—
Real estate-residential	—	—	—	216	—
Construction loans	57	116	—	1,932	—
	609	668	—	3,858	—
Total	\$8,080	\$9,567	\$1,547	\$10,520	\$—

Table of Contents

The following tables present by class the contractual aging of delinquent loans:

At June 30, 2013

	Current (in thousands)	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more	Total past due	Total loans	Recorded investment over 90 days and accruing interest
Residential							
Residential mortgages	\$ 324,232	\$ 406	\$ 587	\$ 1,863	\$ 2,856	\$ 327,088	\$ —
Commercial							
Real							
estate-commercial	106,654	—	233	552	785	107,439	—
Real estate-residential	20,183	—	29	392	421	20,604	—
Real							
estate-multi-family	16,485	—	—	—	—	16,485	—
Construction loans	7,406	—	—	2,944	2,944	10,350	—
Commercial and industrial loans	5,182	—	—	9	9	5,191	—
Consumer							
Home equity and second mortgage	39,114	166	6	143	315	39,429	—
Other consumer	1,655	—	—	2	2	1,657	—
Total	\$ 520,911	\$ 572	\$ 855	\$ 5,905	\$ 7,332	\$ 528,243	\$ —

At December 31, 2012

	Current	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more (in thousands)	Total past due	Total loans	Recorded investment over 90 days and accruing interest
Residential							
Residential mortgages	\$ 319,982	\$ 1,161	\$ 329	\$ 2,193	\$ 3,683	\$ 323,665	\$ —
Commercial							
Real							
estate-commercial	102,868	800	—	1,098	1,898	104,766	—
Real estate-residential	21,488	31	—	51	82	21,570	—
Real							
estate-multi-family	19,118	—	—	—	—	19,118	—
Construction loans	11,494	—	—	4,794	4,794	16,288	—

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

Commercial and industrial loans	4,646	—	—	—	—	4,646	—
Consumer							
Home equity and second mortgage	39,842	34	124	143	301	40,143	—
Other consumer	1,824	—	3	8	11	1,835	—
Total	\$ 521,262	\$ 2,026	\$ 456	\$ 8,287	\$ 10,769	\$ 532,031	\$ —

Table of Contents

Activity in the allowance for loan losses for the three and six months ended June 30, 2013 is summarized as follows:

	Balance April 1, 2013	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2013
Residential					
Residential mortgages	\$1,800	\$77	\$(109)	\$12	\$1,780
Commercial					
Real estate-commercial	1,311	(74)	—	—	1,237
Real estate-residential	601	(241)	—	—	360
Real estate-multi-family	237	(65)	—	—	172
Construction loans	1,894	484	(39)	3	2,342
Commercial and industrial loans	125	(55)	—	1	71
Consumer					
Home equity and second mortgage	211	(1)	—	—	210
Other consumer	11	27	(16)	2	24
Unallocated	472	248	—	—	720
Total	\$6,662	\$400	\$(164)	\$18	\$6,916
	Balance January 1, 2013	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2013
Residential					
Residential mortgages	\$1,849	\$126	\$(207		