TIMBERLAND BANCORP INC
Form 10-Q
February 09, 2017
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 December 31, 2016

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 0-23333

TIMBERLAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1863696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

(360) 533-4747
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 _X_ No __

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

Large accelerated filer ___ Accelerated Filer X Non-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 _X_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	SHARES OUTSTANDING AT FEBRUARY 9, 2017
Common stock, $.01 par value	7,345,397

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and September 30, 2016
(Dollars in thousands, except per share amounts)

	December 31, 2016 (Unaudited)	September 30, 2016 *
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 16,598	$ 16,686
Interest-bearing deposits in banks	118,872	92,255
Total cash and cash equivalents	135,470	108,941
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	53,432	53,000
Investment securities held to maturity, at amortized cost (estimated fair value $8,134 and $8,395)	7,418	7,511
Investment securities available for sale, at fair value	1,288	1,342
Federal Home Loan Bank of Des Moines (“FHLB”) stock	2,204	2,204
Loans held for sale	2,008	3,604
Loans receivable, net of allowance for loan losses of $9,843 and $9,826	669,140	663,146
Premises and equipment, net	17,816	16,159
Other real estate owned (“OREO”) and other repossessed assets, net	3,254	4,117
Accrued interest receivable	2,443	2,348
Bank owned life insurance (“BOLI”)	18,858	18,721
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,706	1,573
Other assets	3,064	3,072
Total assets	$ 923,751	$ 891,388
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 176,382	$ 172,283
Interest-bearing	613,593	589,251
Total deposits	789,975	761,534
FHLB borrowings	30,000	30,000
Other liabilities and accrued expenses	4,142	3,020
Total liabilities	824,117	794,554

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2016 and September 30, 2016
(Dollars in thousands, except per share amounts)

	December 31, 2016 (Unaudited)	September 30, 2016 *
Shareholders’ equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	$ —	$ —
Common stock, $.01 par value; 50,000,000 shares authorized;		
6,956,568 shares issued and outstanding - December 31, 2016 6,943,868 shares issued and outstanding - September 30, 2016	10,188	9,961
Unearned shares issued to Employee Stock Ownership Plan (“ESOP”)	(595)	(661)
Retained earnings	90,230	87,709
Accumulated other comprehensive loss	(189)	(175)
Total shareholders’ equity	99,634	96,834
Total liabilities and shareholders’ equity	$ 923,751	$ 891,388

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the three months ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Interest and dividend income		
Loans receivable and loans held for sale	$8,788	$8,429
Investment securities	70	69
Dividends from mutual funds and FHLB stock	24	22
Interest-bearing deposits in banks and CDs	281	171
Total interest and dividend income	9,163	8,691
Interest expense		
Deposits	543	504
FHLB borrowings	307	477
Total interest expense	850	981
Net interest income	8,313	7,710
Provision for loan losses	—	—
Net interest income after provision for loan losses	8,313	7,710
Non-interest income		
Service charges on deposits	1,105	972
ATM and debit card interchange transaction fees	800	700
BOLI net earnings	137	136
Gain on sales of loans, net	689	394
Escrow fees	76	41
Servicing income on loans sold	97	65
Other, net	312	210
Total non-interest income, net	3,216	2,518

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three months ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Non-interest expense		
Salaries and employee benefits	$3,680	$ 3,471
Premises and equipment	755	760
Advertising	162	205
OREO and other repossessed assets, net	30	244
ATM and debit card interchange transaction fees	311	322
Postage and courier	95	100
State and local taxes	155	132
Professional fees	201	130
Federal Deposit Insurance Corporation ("FDIC") insurance	113	107
Loan administration and foreclosure	94	29
Data processing and telecommunications	450	450
Deposit operations	309	172
Other	455	357
Total non-interest expense	6,810	6,479
Income before federal income taxes	4,719	3,749
Provision for federal income taxes	1,572	1,221
Net income	$3,147	$ 2,528
Net income per common share		
Basic	$0.46	$ 0.37
Diluted	$0.43	$ 0.36
Weighted average common shares outstanding		
Basic	6,862,749	6,869,726
Diluted	7,235,517	7,083,864
Dividends paid per common share	$0.09	$ 0.12

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended December 31, 2016 and 2015
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Comprehensive income		
Net income	$3,147	$2,528
Unrealized holding loss on investment securities available for sale, net of income taxes of ($14) and ($6), respectively	(27)	(12)
Change in other than temporary impairment ("OTTI") on investment securities held to maturity, net of income taxes:		
Accretion of OTTI on investment securities held to maturity, net of income taxes of $7 and $5, respectively	13	10
Total other comprehensive loss, net of income taxes	(14)	(2)
Total comprehensive income	$3,133	$2,526

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the three months ended December 31, 2016 and 2015
(Dollars in thousands, except per share amounts)
(Unaudited)

	Number of Shares	Amount	Unearned Shares		Accumulated Other	
	Common Stock	Common Stock	Issued to ESOP	Retained Earnings	Compre-hensive Loss	Total
Balance, September 30, 2015	6,988,848	$ 10,293	$ (926)	$ 80,133	$ (313)	$ 89,187
Net income	—	—	—	2,528	—	2,528
Other comprehensive loss	—	—	—	—	(2)	(2)
Exercise of stock options	5,300	42	—	—	—	42
Common stock dividends ($0.12 per common share)	—	—	—	(838)	—	(838)
Earned ESOP shares, net of income taxes	—	26	67	—	—	93
Stock option compensation expense	—	41	—	—	—	41
Balance, December 31, 2015	6,994,148	10,402	(859)	81,823	(315)	91,051
Balance, September 30, 2016	6,943,868	9,961	(661)	87,709	(175)	96,834
Net income	—	—	—	3,147	—	3,147
Other comprehensive loss	—	—	—	—	(14)	(14)
Exercise of stock options	12,700	80	—	—	—	80
Common stock dividends ($0.09 per common share)	—	—	—	(626)	—	(626)
Earned ESOP shares, net of income taxes	—	62	66	—	—	128
Stock option compensation expense	—	85	—	—	—	85
Balance, December 31, 2016	6,956,568	$ 10,188	$ (595)	$ 90,230	$ (189)	$ 99,634

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended December 31, 2016 and 2015
(In thousands)
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Cash flows from operating activities		
Net income	$3,147	$2,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	313	340
Earned ESOP shares	66	67
Stock option compensation expense	40	37
Stock option tax effect less excess tax benefit	8	2
Loss (gain) on sales of OREO and other repossessed assets, net	(3)	3
Provision for OREO losses	9	160
Loss on sales/dispositions of premises and equipment, net	—	3
BOLI net earnings	(137)	(136)
Gain on sales of loans, net	(689)	(394)
Decrease in deferred loan origination fees	(45)	(10)
Amortization of MSRs	125	154
Loans originated for sale	(21,914)	(10,475)
Proceeds from sales of loans	24,199	12,616
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	760	750
Net cash provided by operating activities	5,879	5,645
Cash flows from investing activities		
Net increase in CDs held for investment	(432)	(2,254)
Proceeds from maturities and prepayments of investment securities held to maturity	136	124
Proceeds from maturities and prepayments of investment securities available for sale	14	13
Increase in loans receivable, net	(5,994)	(20,253)
Additions to premises and equipment	(1,970)	(78)
Capitalized improvements to OREO	—	(142)
Proceeds from sales of OREO and other repossessed assets	902	166
Net cash used in investing activities	(7,344)	(22,424)

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the three months ended December 31, 2016 and 2015
(In thousands)
(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Cash flows from financing activities		
Net increase in deposits	$28,441	$18,858
ESOP tax effect	62	26
Proceeds from exercise of stock options	80	42
Stock option excess tax benefit	37	2
Payment of dividends	(626)	(838)
Net cash provided by financing activities	27,994	18,090
Net increase in cash and cash equivalents	26,529	1,311
Cash and cash equivalents		
Beginning of period	108,941	92,289
End of period	$135,470	$93,600
Supplemental disclosure of cash flow information		
Income taxes paid	$200	$—
Interest paid	834	971
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$45	$—
Other comprehensive loss related to investment securities	(14)	(2)

See notes to unaudited consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2016 ("2016 Form 10-K"). The unaudited consolidated results of operations for the three months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2017.

(b) Principles of Consolidation: The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, "Timberland Bank."

(d) The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the December 31, 2016 presentation with no change to net income or total shareholders' equity as previously reported.

(2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and were as follows as of December 31, 2016 and September 30, 2016 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	$ 636	$ 15	$ (1)	$ 650
Private label residential	775	709	(5)	1,479
U.S. Treasury and U.S government agency securities	6,007	19	(21)	6,005
Total	$ 7,418	$ 743	$ (27)	$ 8,134
Available for sale				
MBS: U.S. government agencies	$ 323	$ 22	$ (1)	$ 344
Mutual funds	1,000	—	(56)	944
Total	$ 1,323	$ 22	$ (57)	$ 1,288
September 30, 2016				
Held to maturity				
MBS:				
U.S. government agencies	$ 670	$ 18	$ (1)	$ 687
Private label residential	835	762	(2)	1,595
U.S. Treasury and U.S. government agency securities	6,006	107	—	6,113
Total	$ 7,511	$ 887	$ (3)	$ 8,395
Available for sale				
MBS: U.S. government agencies	$ 336	$ 30	$ —	$ 366
Mutual funds	1,000	—	(24)	976
Total	$ 1,336	$ 30	$ (24)	$ 1,342

Held to maturity and available for sale investment securities with unrealized losses were as follows for December 31, 2016 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$50	$ —	2	$91	$ (1)	5	$141	$ (1)
Private label residential	13	—	1	103	(5)	11	116	(5)
U.S. Treasury and U.S. government agency securities	2,971	(21)	1	—	—	—	2,971	(21)
Total	$3,034	$ (21)	4	$194	$ (6)	16	$3,228	$ (27)
Available for sale								
MBS: U.S. government agency	$35	$ (1)	1	$—	$ —	—	$35	$ (1)
Mutual funds	—	—	—	944	(56)	1	944	(56)
Total	$35	$ (1)	1	$944	$ (56)	1	$979	$ (57)

Held to maturity and available for sale investment securities with unrealized losses were as follows for September 30, 2016 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$9	$ —	1	$96	$ (1)	5	$105	$ (1)
Private label residential	1	—	1	112	(2)	10	113	(2)
Total	$10	$ —	2	$208	$ (3)	15	$218	$ (3)
Available for sale								
Mutual funds	$—	$ —	—	$976	$ (24)	1	$976	$ (24)
Total	$—	$ —	—	$976	$ (24)	1	$976	$ (24)

The Company has evaluated the investment securities in the above tables and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of December 31, 2016, management does not have the intent to sell any of the securities classified as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost or recorded value if previously written down.

In accordance with GAAP, the Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss). To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of the

OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates, prepayment speeds and third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimates of the credit loss component on OTTI securities as of December 31, 2016 and September 30, 2016:

	Range		Weighted
	Minimum	Maximum	Average
December 31, 2016			
Constant prepayment rate	6.00%	15.00 %	12.28 %
Collateral default rate	0.34%	13.35 %	5.66 %
Loss severity rate	5.00%	81.00 %	46.05 %
December 31, 2015			
Constant prepayment rate	6.00%	15.00 %	9.63 %
Collateral default rate	0.11%	15.97 %	5.33 %
Loss severity rate	1.00%	77.00 %	40.54 %

For the three months ended December 31, 2016 and 2015 no OTTI was recognized.

The following table presents a roll forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings for the three months ended December 31, 2016 and 2015 (dollars in thousands):

	Three Months Ended December 31,	
	2016	2015
Beginning balance of credit loss	$1,505	$1,576
Subtractions:		
Realized losses previously recorded as credit losses	(13)	(28)
Ending balance of credit loss	$1,492	$1,548

During the three months ended December 31, 2016, the Company recorded a $13,000 net realized loss (as a result of the securities being deemed worthless) on 11 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended December 31, 2015, the Company recorded a $28,000 net realized loss (as a result of the securities being deemed worthless) on 14 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss.

The recorded amount of residential MBS, treasury and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral and other non-profit organization deposits totaled $6.98 million and $7.04 million at December 31, 2016 and September 30, 2016, respectively.

The contractual maturities of debt securities at December 31, 2016 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities due to the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$14	$ 14	$—	$ —
Due after one year to five years	5,995	5,993	—	—
Due after five to ten years	15	15	—	—
Due after ten years	1,394	2,112	323	344
Total	$7,418	$ 8,134	$323	$ 344

(3) GOODWILL

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is analyzed annually for impairment. The Company performs an annual review during the third quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

The goodwill impairment test involves a two-step process. Step one estimates the fair value of the reporting unit. If the estimated fair value of the Company's sole reporting unit, the Bank, under step one exceeds the recorded value of the reporting unit, goodwill is not considered impaired and no further analysis is necessary. If the estimated fair value of the Company's sole reporting unit is less than the recorded value, then a step two test, which calculates the fair value of assets and liabilities to calculate an implied value of goodwill, is performed.

The Company performed its fiscal year 2016 goodwill impairment test during the quarter ended June 30, 2016 with the assistance of an independent third-party firm specializing in goodwill impairment valuations for financial institutions. The third-party analysis was conducted as of May 31, 2016 and the step one test concluded that the reporting unit's fair value was greater than its recorded value and, therefore, the recorded value of goodwill as of May 31, 2016 was not impaired. Accordingly, step two of the analysis was not necessary.

Step one of the goodwill impairment test estimates the fair value of the reporting unit utilizing a discounted cash flow income approach analysis, a public company market approach analysis, a merger and acquisition market approach analysis and a trading price market approach analysis in order to derive an enterprise value for the Company.

The discounted cash flow income approach analysis uses a reporting unit's projection of estimated operating results and cash flows and discounts them using a rate that reflects current market conditions. The projection uses management's estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Key assumptions used by the Company in its discounted cash flow model (income approach) included an annual loan growth rate that ranged from 3.00% to 3.90%, an annual deposit growth rate that ranged from 2.50% to 3.50% and a return on assets that ranged from 0.90% to 1.10%. In addition to the above projections of estimated operating results, key assumptions used to determine the fair value estimate under this approach were the discount rate of 10.6% and the residual capitalization rate of 7.6%. The discount rate used was the cost of equity capital. The cost of equity capital was based on the capital asset pricing model ("CAPM"), modified to account for a small stock premium. The small stock premium represents the additional return required by investors for small stocks based on the Duffs and Phelps 2016 Valuation Handbook. Beyond the approximate five-year forecast period, residual free cash flows were estimated to increase at a constant rate into perpetuity. These cash flows were converted to a residual value using an appropriate residual capitalization rate. The residual capitalization rate was equal to the discount rate minus the expected long-term growth rate of cash flows. Based on historical results, the economic climate, the outlook for the industry and management's expectations, a long-term growth rate of 3.0% was estimated.

The public company market approach analysis estimates the fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with operating and investment characteristics similar to those of the Company. Key assumptions used by the Company included the selection of comparable public companies and performance ratios. In applying the public company analysis, the Company selected nine publicly traded institutions based on similar lines of business, markets, growth prospects, risks and firm size. The performance ratios included price to earnings (last twelve months), price to earnings (current year to date), price to book value, price to tangible book value and price to deposits.

The merger and acquisition market approach analysis estimates the fair value by using merger and acquisition transactions involving companies that are similar in nature to the Company. Key assumptions used by the Company included the selection of comparable merger and acquisition transactions and the valuation ratios to be used. The analysis used banks located in Washington or Oregon that were acquired after January 1, 2013. The valuation ratios from these transactions for price to earnings and price to tangible book value were then used to derive an estimated fair value of the Company.

The trading price market approach analysis used the closing market price at May 31, 2016 of the Company's common stock, traded on the NASDAQ Global Market, to determine the market value of total equity capital.

A key assumption used by the Company in the public company market approach analysis and the trading price market approach analysis was the application of a control premium. The Company's common stock is thinly traded, and therefore management believes the trading price reflects a discount for illiquidity. In addition, the trading price of the Company's common stock reflects a minority interest value. To determine the fair market value of a majority interest in the Company's stock, premiums were calculated and applied to the indicated values. Therefore, a control premium was applied to the results of the discounted cash flow income approach analysis, the public company market approach analysis and the trading price market approach analysis because the initial value conclusion was based on minority interest transactions. Merger and acquisition studies were analyzed to conclude that the difference between the acquisition price and a company's stock price prior to acquisition indicates, in part, the price effect of a controlling interest. Based on the evaluation of mergers and acquisition studies, a control premium of 25% was used.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in the expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. Key assumptions used in the annual goodwill impairment test are highly judgmental and include: selection of comparable companies, amount of control premium, projected cash flows and discount rate applied to projected cash flows. Any change in these indicators or key assumptions could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

As of December 31, 2016, management believed that there had been no events or changes in the circumstances since May 31, 2016 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(4) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable by portfolio segment consisted of the following at December 31, 2016 and September 30, 2016 (dollars in thousands):

	December 31, 2016		September 30, 2016	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family	$119,485	16.2 %	$118,560	16.4 %
Multi-family	52,062	7.1	62,303	8.6
Commercial	323,496	44.0	312,525	43.2
Construction - custom and owner/builder	96,292	13.1	93,049	12.9
Construction - speculative one- to four-family	6,133	0.8	8,106	1.1
Construction - commercial	8,627	1.2	9,365	1.3
Construction - multi-family	22,092	3.0	12,590	1.7
Land	22,359	3.0	21,627	3.0
Total mortgage loans	650,546	88.4	638,125	88.2
Consumer loans:				
Home equity and second mortgage	37,602	5.1	39,727	5.5
Other	4,523	0.7	4,139	0.5
Total consumer loans	42,125	5.8	43,866	6.0
Commercial business loans	42,657	5.8	41,837	5.8
Total loans receivable	735,328	100.0%	723,828	100.0%
Less:				
Undisbursed portion of construction loans in process	54,161		48,627	
Deferred loan origination fees	2,184		2,229	
Allowance for loan losses	9,843		9,826	
	66,188		60,682	
Loans receivable, net	$669,140		$663,146	

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Allowance for Loan Losses

The following tables set forth information for the three months ended December 31, 2016 and 2015 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended December 31, 2016				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,239	$ (83)	$ —	$ 21	$ 1,177
Multi-family	473	(73)	—	—	400
Commercial	4,384	144	(5)	—	4,523
Construction – custom and owner/builder	619	17	—	—	636
Construction – speculative one- to four-family	130	(30)	—	—	100
Construction – commercial	268	14	—	—	282
Construction – multi-family	316	69	—	—	385
Land	820	13	(2)	5	836
Consumer loans:					
Home equity and second mortgage	939	(80)	—	—	859