TF FINANCIAL CORP
Form 10-Q
August 14, 2012

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 period ended June 30, 2012

\- or -

o 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 x NO o

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 xNO o

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 o Accelerated filer o

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 o 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, 2012

Class	Outstanding
$.10 par value common stock	2,836,946 shares

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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

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART I-CONSOLIDATED FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	At June 30, 2012	At December 31, 2011
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 4,367	$ 14,928
Investment securities		
Available for sale	115,504	114,503
Held to maturity (fair value of $2,698 and $2,928 as of June 30, 2012 and December 31, 2011, respectively)	2,351	2,588
Loans receivable, net	512,235	494,125
Loans receivable, held for sale	1,548	488
Federal Home Loan Bank ("FHLB") stock—at cost	6,910	7,657
Accrued interest receivable	2,589	2,610
Premises and equipment, net	6,395	6,559
Goodwill	4,324	4,324
Bank owned life insurance	18,810	18,506
Other assets	10,354	15,641
TOTAL ASSETS	$ 685,387	$ 681,929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$ 547,040	$ 551,288
Advances from the FHLB	51,084	46,908
Advances from borrowers for taxes and insurance	2,853	2,322
Accrued interest payable	1,421	1,375
Other liabilities	2,887	2,628
Total liabilities	605,285	604,521
Stockholders' equity		
Preferred stock, no par value; 2,000,000 shares authorized at June 30, 2012 and December 31, 2011, none issued	—	—
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,835,373 and 2,831,874 shares outstanding at June 30, 2012 and December 31, 2011, respectively, net of shares in treasury of 2,454,627 and 2,458,126, respectively.	529	529
Additional paid-in capital	54,234	54,118
Unearned ESOP shares	(1,035)	(1,097)
Treasury stock—at cost	(50,958)	(51,032)
Retained earnings	76,277	74,144

Accumulated other comprehensive income		1,055		746
Total stockholders’ equity		80,102		77,408
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	685,387	$	681,929

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$6,231	$6,695	$12,428	$13,279
Investment securities				
Fully taxable	667	874	1,296	1,770
Exempt from federal taxes	430	362	865	717
Interest-bearing deposits and other	—	1	2	1
TOTAL INTEREST INCOME	7,328	7,932	14,591	15,767
Interest expense				
Deposits	926	1,438	1,992	2,898
Borrowings	351	505	756	1,064
TOTAL INTEREST EXPENSE	1,277	1,943	2,748	3,962
NET INTEREST INCOME	6,051	5,989	11,843	11,805
Provision for loan losses	500	1,450	1,000	2,350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,551	4,539	10,843	9,455
Non-interest income				
Service fees, charges and other operating income	373	479	857	944
Bank owned life insurance	152	164	304	321
Gain on sale of investments	—	210	—	210
Gain on sale of loans	214	50	538	167
Gain on disposition of premises and equipment	—	—	277	—
TOTAL NON-INTEREST INCOME	739	903	1,976	1,642
Non-interest expense				
Compensation and benefits	2,697	2,622	5,571	5,368
Occupancy and equipment	672	736	1,382	1,554
Federal deposit insurance premiums	150	151	301	384
Professional fees	174	324	525	802
Marketing and advertising	106	102	191	169
Foreclosed real estate expense	340	119	627	180
Other operating	510	567	1,108	1,129
TOTAL NON-INTEREST EXPENSE	4,649	4,621	9,705	9,586
INCOME BEFORE INCOME TAXES	1,641	821	3,114	1,511
Income tax expense	392	122	710	194
NET INCOME	$1,249	$699	$2,404	$1,317
Earnings per share—basic	$0.46	$0.26	$0.88	$0.49
Earnings per share—diluted	$0.46	$0.26	$0.88	$0.49
Dividends paid per share	$0.05	$0.05	$0.10	$0.10
Weighted average shares outstanding:				
Basic	2,724	2,699	2,721	2,697

Diluted	2,728	2,700	2,725	2,698

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Net income	$1,249	$699	$2,404	$1,317
Other comprehensive income:				
Investment securities available for sale:				
Unrealized holding gains	429	956	326	1,360
Tax effect	(146)	(325)	(111)	(462)
Reclassification adjustment for gains realized in net income	—	(210)	—	(210)
Tax effect	—	71	—	71
Net of tax amount	283	492	215	759
Pension plan benefit adjustment:				
Related to actuarial losses and prior service cost	71	29	143	58
Tax effect	(24)	(10)	(49)	(19)
Net of tax amount	47	19	94	39
Total other comprehensive income	330	511	309	798
Comprehensive income	$1,579	$1,210	$2,713	$2,115

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2012	2011
	(in thousands)	
OPERATING ACTIVITIES		
Net income	$2,404	$1,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment adjustment of mortgage loan servicing rights	188	78
Premiums and discounts on investment securities, net	119	59
Premiums and discounts on mortgage-backed securities, net	146	127
Deferred loan origination costs, net	145	24
Provision for loan losses	1,000	2,350
Depreciation of premises and equipment	396	436
Increase in value of bank owned life insurance	(304)	(321)
Stock based compensation	246	154
Proceeds from sale of loans originated for sale	26,047	8,632
Origination of loans held for sale	(26,836)	(8,409)
Loss on foreclosed real estate	425	—
Gain on:		
Sale of investments	—	(210)
Sale of loans held for sale	(538)	(167)
Disposition of premises and equipment	(277)	—
Decrease (increase) in:		
Accrued interest receivable	21	(37)
Other assets	260	473
Increase in:		
Accrued interest payable	46	448
Other liabilities	242	1,377
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,730	6,331
INVESTING ACTIVITIES		
Loan originations	(66,089)	(50,143)
Loan principal payments	44,945	47,642
Proceeds from sale of foreclosed real estate	6,570	639
Proceeds from disposition of premises and equipment	356	—
Principal repayments on mortgage-backed securities held to maturity	237	361
Principal repayments on mortgage-backed securities available for sale	13,420	14,327
Proceeds from maturities and redemptions of investments available for sale	3,420	—
Proceeds from sale of investment securities available for sale	—	3,534
Purchase of investment securities available for sale	(4,260)	(4,112)
Purchase of mortgage-backed securities available for sale	(13,520)	(14,550)
Purchase of premises and equipment	(311)	(436)

Redemption of FHLB stock	747	917
Proceeds from sale of mortgage backed securities available for sale	—	1,518
NET CASH USED BY INVESTING ACTIVITIES	(14,485)	(303)

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2012	2011
	(in thousands)	
FINANCING ACTIVITIES		
Net (decrease)/increase in deposits	(4,248)	1,969
Net increase in short-term FHLB borrowings	7,440	—
Proceeds of long-term FHLB borrowings	8,197	6,573
Repayment of long-term FHLB borrowings	(11,461)	(13,215)
Net increase in advances from borrowers for taxes and insurance	531	259
Exercise of stock options	7	—
Tax benefit arising from exercise of stock options	(1)	—
Common stock dividends paid	(271)	(265)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	194	(4,679)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(10,561)	1,349
Cash and cash equivalents at beginning of period	14,928	7,437
Cash and cash equivalents at end of period	$4,367	$8,786
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest on deposits and borrowings	$2,702	$3,514
Income taxes	$375	$300
Non-cash transactions:		
Capitalization of mortgage servicing rights	$267	$74
Transfers from loans to foreclosed real estate	$1,889	$2,392
Securities available for sale purchased not settled	$—	$1,234

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 June 30, 2012 (unaudited) and December 31, 2011 and for the three and six-month periods ended June 30, 2012 and 2011 (unaudited) include the accounts of TF Financial Corporation (the “Company”) and its wholly owned subsidiaries: 3rd Fed Bank (the “Bank”), Penns Trail Development Corporation, and TF Investments Corporation, which was merged into the Company during 2011. The accompanying consolidated balance sheet at December 31, 2011, 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, 2012 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, 2011.

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.

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NOTE 4—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, 2012		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
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 (numerator)	Weighted average shares (denominator)	Per share Amount
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.

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	For the three months ended June 30, 2011		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$699	2,698,846	$0.26
Effect of dilutive securities			
Stock options and grants	—	1,013	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$699	2,699,859	$0.26

	For the six months ended June 30, 2011		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$1,317	2,697,282	$0.49
Effect of dilutive securities			
Stock options and grants	—	613	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$1,317	2,697,895	$0.49

There were 66,507 options to purchase shares of common stock at a price range of $24.12 to $32.51 per share which were outstanding during the three and six months ended June 30, 2011 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.

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NOTE 5—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, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
State and political subdivisions	$55,003	$4,130	$(31)	$59,102
Residential mortgage-backed securities issued by quasi-governmental agencies	50,190	1,559	—	51,749
Residential mortgage-backed securities privately issued	4,456	198	(1)	4,653
Total investment securities available for sale	109,649	5,887	(32)	115,504
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	2,351	347	—	2,698
Total investment securities	$112,000	$6,234	$(32)	$118,202

	At December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
U.S. Government and federal agencies	$2,995	$35	$—	$3,030
State and political subdivisions	51,287	3,804	—	55,091
Residential mortgage-backed securities issued by quasi-governmental agencies	45,969	1,525	—	47,494
Residential mortgage-backed securities privately issued	8,723	195	(30)	8,888
Total investment securities available for sale	108,974	5,559	(30)	114,503
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	2,588	340	—	2,928
Total investment securities	$111,562	$5,899	$(30)	$117,431

There were no sales of investment securities during the three and six months ended June 30, 2012. Gross realized gains were $210,000 for the three and six months ended June 30, 2011. These gains resulted from proceeds from the sale of investment and mortgage-backed securities of $5.1 million.

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

	At June 30, 2012			
	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Investment securities				
Due in one year or less	$ 1,073	$ 1,094	$ —	$ —
Due after one year through five years	8,306	8,699	—	—
Due after five years through ten years	24,425	26,062	—	—
Due after ten years	21,199	23,247	—	—
	55,003	59,102	—	—
Mortgage-backed securities	54,646	56,402	2,351	2,698
Total investment and mortgage-backed securities	$ 109,649	$ 115,504	$ 2,351	$ 2,698

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2012:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
		(dollars in thousands)					
State and political subdivisions	2	$1,514	$(31)	$—	$—	$1,514	$(31)
Residential mortgage-backed securities privately issued	1	112	(1)	—	—	112	(1)
Total temporarily impaired securities	3	$1,626	$(32)	$—	$—	$1,626	$(32)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2011:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
		(dollars in thousands)					
Residential mortgage-backed	2	$3,442	$(30)	$—	$—	$3,442	$(30)

securities privately issued							
Total temporarily impaired securities	2	$3,442	$(30)	$—	$—	$3,442	$(30)

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

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June 30, 2012 and December 31, 2011, respectively, are not considered other-than-temporary but are the result of changes in interest rates, and are therefore reflected in other comprehensive income.

NOTE 6—LOANS RECEIVABLE

Loans receivable are summarized as follows:

	At June 30, 2012	At December 31, 2011
	(in thousands)	
Held for investment:		
Residential		
Residential mortgages	$ 298,657	$ 277,824
Commercial		
Real estate-commercial	107,701	110,743
Real estate-residential	23,138	25,801
Real estate-multi-family	19,500	19,906
Construction loans	16,154	16,336
Commercial and industrial loans	4,705	4,414
Total commercial loans	171,198	177,200
Consumer		
Home equity and second mortgage	45,439	44,165
Other consumer	2,031	1,971
Total consumer loans	47,470	46,136
Total loans	517,325	501,160
Net deferred loan origination costs and unamortized premiums	1,073	1,065
Less allowance for loan losses	(6,163)	(8,100)
Total loans receivable	$ 512,235	$ 494,125
Held for sale:		
Residential		
Residential mortgages	$ 1,548	$ 488

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The following table presents the composition of the commercial loan portfolio by credit quality indicators:

Commercial credit exposure-credit risk profile by internally assigned grade

	At June 30, 2012				
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	$94,335	$4,249	$ 9,117	$—	$107,701
Real estate-residential	20,206	652	2,280	—	23,138
Real estate-multi-family	12,877	3,240	3,383	—	19,500
Construction loans	6,195	3,460	6,499	—	16,154
Commercial and industrial loans	4,618	87	—	—	4,705
Total	$138,231	$11,688	$ 21,279	$—	$171,198

	At December 31, 2011				
	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Real estate-commercial	$95,719	$6,189	$ 8,835	$—	$110,743
Real estate-residential	21,447	2,891	1,463	—	25,801
Real estate-multi-family	12,753	3,768	3,385	—	19,906
Construction loans	4,452	4,312	7,572	—	16,336
Commercial and industrial loans	4,140	99	175	—	4,414
Total	$138,511	$17,259	$ 21,430	$—	$177,200

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: 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

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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 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 non-accrual status and are classified as substandard or doubtful.

The following table presents the composition of the residential mortgage and consumer loan portfolios by credit quality indicators:

Mortgage and consumer credit exposure-credit risk profile by payment activity

	At June 30, 2012		
	Performing	Non-performing (in thousands)	Total
Residential mortgages	$294,926	$ 3,731	$298,657
Home equity and second mortgage	45,023	416	45,439
Other consumer	2,031	—	2,031
Total	$341,980	$ 4,147	$346,127

	At December 31, 2011		
	Performing	Non-performing (in thousands)	Total
Residential mortgages	$272,322	$ 5,502	$277,824
Home equity and second mortgage	43,888	277	44,165
Other consumer	1,970	1	1,971
Total	$318,180	$ 5,780	$323,960

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 non-accrual status and evaluated for impairment.

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

	At June 30, 2012	At December 31, 2011
	(in thousands)	
Residential		
Residential mortgages	$ 3,731	$ 5,502
Commercial		
Real estate-commercial	1,425	2,711
Real estate-residential	840	—
Construction loans	6,154	4,044
Commercial and industrial loans	—	6
Consumer		
Home equity and second mortgage	416	277
Other consumer	—	1
Total non-performing loans	$ 12,566	$ 12,541
Total loans past due 90 days as to interest or principal and accruing interest	$ —	$ —

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

	At June 30, 2012				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	$ 2,538	$ 2,953	$ 157	$ 1,976	$ —
Commercial					
Real estate-commercial	—	—	—	790	—
Real estate-residential	719	843	57	240	—
Construction loans	6,154	7,076	373	4,392	—
Commercial and industrial loans	—	—	—	4	—
	9,411	10,872	587	7,402	—
With no allowance recorded:					
Residential					
Residential mortgages	1,193	1,193	—	1,247	—
Commercial					
Real estate-commercial	1,425	2,338	—	1,268	—
Real estate-residential	121	121	—	320	—
Construction loans	—	—	—	1,199	—
Consumer					
Home equity and second mortgage	416	416	—	139	—
	3,155	4,068	—	4,173	—
Total	$ 12,566	$ 14,940	$ 587	$ 11,575	$ —

	At December 31, 2011				
	Recorded investment	Unpaid principal balance	Related allowance (in thousands)	Average recorded investment	Interest income recognized
With an allowance recorded:					
Residential					
Residential mortgages	$1,252	$1,252	$388	$751	$—
Commercial					
Real estate-commercial	1,497	1,497	877	3,581	—
Real estate-residential	—	—	—	497	—
Construction loans	3,816	3,816	1,035	4,143	—
Commercial and industrial loans	6	6	3	72	—
	6,571	6,571	2,303	9,044	—
With no allowance recorded:					
Residential					
Residential mortgages	2,381	2,381	—	1,497	—
Commercial					
Real estate-commercial	1,214	1,214	—	1,270	—
Real estate-residential	—	—	—	459	—

Construction loans	228	228	—	1,642	—
Commercial and industrial loans	—	—	—	—	—
	3,823	3,823	—	4,868	—
Total	$10,394	$10,394	$2,303	$13,912	$—

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

	At June 30, 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	$294,862	$—	$1,503	$2,292	$3,795	$298,657	$—
Commercial							
Real estate-commercial	106,566	—	—	1,135	1,135	107,701	—
Real estate-residential	22,265	—	33	840	873	23,138	—
Real estate-multi-family	19,500	—	—	—	—	19,500	—
Construction loans	10,000	—	—	6,154	6,154	16,154	—
Commercial and industrial loans	4,695	10	—	—	10	4,705	—
Consumer							
Home equity and second mortgage	44,689	295	39	416	750	45,439	—
Other consumer	2,027	4	—	—	4	2,031	—
Total	$504,604	$309	$1,575	$10,837	$12,721	$517,325	$—

	At December 31, 2011						
	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	$273,231	$98	$153	$4,342	$4,593	$277,824	$—
Commercial							
Real estate-commercial	108,382	—	—	2,361	2,361	110,743	—
	25,489	312	—	—	312	25,801	—

Real estate-residential							
Real estate-multi-family	19,906	—	—	—	—	19,906	—
Construction loans	9,151	—	3,141	4,044	7,185	16,336	—
Commercial and industrial loans	4,408	—	—	6	6	4,414	—
Consumer							
Home equity and second mortgage	43,712	165	11	277	453	44,165	—
Other consumer	1,956	6	8	1	15	1,971	—
Total	$486,235	$581	$3,313	$11,031	$14,925	$501,160	$—

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Activity in the allowance for loan losses for the three and six months ended June 30, 2012 is summarized as follows:

	Balance April 1, 2012 (in thousands)	Provision	Charge-offs	Recoveries	Balance June 30, 2012
Residential					
Residential mortgages	$1,953	$(159)	$(177)	$3	$1,620
Commercial					
Real estate-commercial	1,834	370	(291)	—	1,913
Real estate-residential	654	462	(417)	—	699
Real estate-multi-family	350	(66)	—	—	284
Construction loans	1,171	83	(252)	—	1,002
Commercial and industrial loans	46	244	(156)	3	137
Consumer					
Home equity and second mortgage	309	(23)	(21)	—	265
Other consumer	8	14	(12)	2	12
Unallocated	656	(425)	—	—	231
Total	$6,981	$500	$(1,326)	$8	$6,163

	Balance January 1, 2012 (in thousands)	Provision	Charge-offs	Recoveries	Balance June 30, 2012
Residential					
Residential mortgages	$2,194	$(8)	$(576)	$10	$1,620
Commercial					
Real estate-commercial	2,819	8	(914)	—	1,913
Real estate-residential	464	652	(417)	—	699
Real estate-multi-family	358	(74)	—	—	284
Construction loans	1,260	602	(860)	—	1,002
Commercial and industrial loans	138	147	(156)	8	137
Consumer					
Home equity and second mortgage	448	(162)	(21)	—	265
Other consumer	22	1	(14)	3	12
Unallocated	397	(166)	—	—	231
Total	$8,100	$1,000	$(2,958)	$21	$6,163

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Activity in the allowance for loan losses for the three and six months ended June 30, 2011 is summarized as follows:

	Balance April 1, 2011 (in thousands)	Provision	Charge-offs	Recoveries	Balance June 30, 2011
Residential					
Residential mortgages	$ 2,050	$ (290)	$ (67)	$ —	$ 1,693
Commercial					
Real estate-commercial	3,710	(882)	—	—	2,828
Real estate-residential	479	669	(729)	—	419
Real estate-multi-family	350	288	(302)	—	336
Construction loans	1,615	1,201	(155)	1	2,662
Commercial and industrial loans	103	110	—	3	216
Consumer					
Home equity and second mortgage	579	(97)	—	—	482
Other consumer	20	1	—	1	22
Unallocated	—	450	—	—	450
Total	$ 8,906	$ 1,450	$ (1,253)	$ 5	$ 9,108

	Balance January 1, 2011 (in thousands)	Provision	Charge-offs	Recoveries	Balance June 30, 2011
Residential					
Residential mortgages	$1,839	$(22)	$(124)	$—	$1,693
Commercial					
Real estate-commercial	3,281	(453)	—	—	2,828
Real estate-residential	534	614	(729)	—	419
Real estate-multi-family	399	239	(302)	—	336
Construction loans	1,363	1,453	(155)	1	2,662
Commercial and industrial loans	77	177	(44)	6	216
Consumer					
Home equity and second mortgage	607	96	(221)	—	482
Other consumer	16	8	(7)	5	22
Unallocated	212	238	—	—	450
Total	$8,328	$2,350	$(1,582)	$12	$9,108

Despite the above allocation, the allowance for credit losses is general in nature and is available to absorb losses from any portfolio segment.

Loans receivable include certain loans that have been modified as Troubled Debt Restructurings ("TDRs"), where economic concessions have been granted to borrowers experiencing financial difficulties. The objective for granting the concessions is to maximize the recovery of the investment in the loan and may include reductions in the interest rate, payment extensions, forgiveness

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of interest or principal, forbearance or other actions. TDRs are classified as nonperforming at the time of restructuring and typically return to performing status after considering the borrower's positive repayment performance for a reasonable period of time, usually six months.

Loans modified in a TDR are evaluated individually for impairment based on the present value of expected cash flows or the fair value of the underlying collateral less selling costs for collateral dependent loans. If the value of the modified loan is less than the recorded investment in the loan, impairment is recognized through an increase to the allowance for loan losses. In periods subsequent to modification, TDRs are evaluated for possible additional impairment.

The following table presents loans classified as TDRs segregated by class for the period indicated:

	For the three months ended June 30, 2012			For the six months ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Residential	(dollars in thousands)			(dollars in thousands)		
Residential mortgage	-	$ -	$ -	1	$ 852	$ 814
Total	-	$ -	$ -	1	$ 852	$ 814