TF FINANCIAL CORP
Form 10-Q
November 14, 2013

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 September 30, 2013

- 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: 1-35163

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

| | |
|---|---|
| Pennsylvania<br>(State or Other Jurisdiction of Incorporation or Organization) | 74-2705050<br>(I.R.S. Employer Identification No.) |
| 3 Penns Trail, Newtown, Pennsylvania<br>(Address of Principal Executive Offices) | 18940<br>(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<br>(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: November 13, 2013

| Class | Outstanding |
|---|---|
| $.10 par value common stock | 3,149,239 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 | | | |
|---|---|---|---|---|
| | September 30, 2013 | | December 31, 2012 | |
| | (in thousands) | | | |
| ASSETS | | | | |
| Cash and cash equivalents | $ | 31,004 | $ | 31,137 |
| Investment securities | | | | |
| Available for sale | | 129,074 | | 102,284 |
| Held to maturity (fair value of $1,719 and $2,271 as of September 30, 2013 and December 31, 2012, respectively) | | 1,540 | | 1,965 |
| Loans receivable, held for sale | | 691 | | 706 |
| Loans receivable, net of allowance of $6,691 and $6,922 at September 30, 2013 and December 31, 2012, respectively | | 622,330 | | 526,720 |
| Federal Home Loan Bank ("FHLB") stock — at cost | | 3,425 | | 5,431 |
| Accrued interest receivable | | 2,669 | | 2,460 |
| Premises and equipment, net | | 8,657 | | 6,108 |
| Goodwill | | 4,324 | | 4,324 |
| Core deposit intangible | | 528 | | — |
| Bank owned life insurance | | 18,451 | | 19,109 |
| Other assets | | 10,641 | | 11,592 |
| TOTAL ASSETS | $ | 833,334 | $ | 711,836 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities | | | | |
| Deposits | $ | 681,825 | $ | 560,315 |
| Advances from the FHLB | | 50,990 | | 60,656 |
| Advances from borrowers for taxes and insurance | | 2,344 | | 2,880 |
| Accrued interest payable | | 729 | | 817 |
| Other liabilities | | 4,635 | | 4,223 |
| Total liabilities | | 740,523 | | 628,891 |
| Stockholders' equity | | | | |
| Preferred stock, no par value; 2,000,000 shares authorized at September 30, 2013 and December 31, 2012, none issued | | — | | — |
| Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 3,147,902 and 2,838,493 shares outstanding at September 30, 2013 and December 31, 2012, respectively, net of shares in treasury of 2,142,098 and 2,451,507, respectively. | | 529 | | 529 |
| Additional paid-in capital | | 56,072 | | 54,328 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Unearned ESOP shares | | (877 | ) | | (970 | ) |
| Treasury stock — at cost | | (44,530 | ) | | (50,896 | ) |
| Retained earnings | | 83,394 | | | 78,984 | |
| Accumulated other comprehensive (loss) income | | (1,777 | ) | | 970 | |
| Total stockholders' equity | | 92,811 | | | 82,945 | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ | 833,334 | | $ | 711,836 | |

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 September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands, except per share data) | | | |
| Interest income | | | | |
| Loans, including fees | $6,947 | $6,436 | $18,976 | $18,864 |
| Investment securities | | | | |
| Fully taxable | 540 | 544 | 1,264 | 1,840 |
| Exempt from federal taxes | 411 | 415 | 1,241 | 1,280 |
| Interest-bearing deposits and other | 5 | — | 23 | 2 |
| TOTAL INTEREST INCOME | 7,903 | 7,395 | 21,504 | 21,986 |
| Interest expense | | | | |
| Deposits | 799 | 803 | 2,242 | 2,795 |
| Borrowings | 219 | 338 | 693 | 1,094 |
| TOTAL INTEREST EXPENSE | 1,018 | 1,141 | 2,935 | 3,889 |
| NET INTEREST INCOME | 6,885 | 6,254 | 18,569 | 18,097 |
| Provision for loan losses | — | 750 | 839 | 1,750 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 6,885 | 5,504 | 17,730 | 16,347 |
| Noninterest income | | | | |
| Service fees, charges and other operating income | 592 | 380 | 1,769 | 1,237 |
| Earnings on bank owned life insurance | 136 | 152 | 416 | 456 |
| Bank owned life insurance death benefit proceeds | — | — | 934 | — |
| Gain on sale of loans | 104 | 382 | 635 | 920 |
| Gain on disposition of premises and equipment | — | — | 420 | 277 |
| Gain on acquisition | 1,214 | — | 1,214 | — |
| TOTAL NONINTEREST INCOME | 2,046 | 914 | 5,388 | 2,890 |
| Noninterest expense | | | | |
| Compensation and benefits | 3,125 | 2,651 | 8,784 | 8,222 |
| Occupancy and equipment | 867 | 686 | 2,273 | 2,068 |
| Federal deposit insurance premiums | 188 | 146 | 430 | 447 |
| Merger-related costs | 2 | — | 617 | — |
| Professional fees | 311 | 349 | 829 | 874 |
| Marketing and advertising | 132 | 76 | 303 | 267 |
| Foreclosed real estate expense | 114 | 78 | 573 | 705 |
| Core deposit intangible | 25 | — | 25 | — |
| Other operating | 2,018 | 480 | 3,110 | 1,588 |
| TOTAL NONINTEREST EXPENSE | 6,782 | 4,466 | 16,944 | 14,171 |
| INCOME BEFORE INCOME TAXES | 2,149 | 1,952 | 6,174 | 5,066 |
| Income tax expense | 183 | 479 | 1,185 | 1,189 |
| NET INCOME | $1,966 | $1,473 | $4,989 | $3,877 |
| Earnings per share—basic | $0.64 | $0.54 | $1.75 | $1.42 |

| | | | | |
|---|---|---|---|---|
| Earnings per share—diluted | $0.64 | $0.54 | $1.75 | $1.42 |
| Dividends paid per share | $0.10 | $0.05 | $0.20 | $0.15 |
| Weighted average shares outstanding: | | | | |
| Basic | 3,052 | 2,729 | 2,846 | 2,724 |
| Diluted | 3,055 | 2,732 | 2,847 | 2,727 |

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 September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Net income | $1,966 | $1,473 | $4,989 | $3,877 |
| Other comprehensive (loss) income: | | | | |
| Investment securities available for sale: | | | | |
| Unrealized holding (losses) gains | (242) | 544 | (4,360) | 870 |
| Tax effect | 82 | (185) | 1,482 | (296) |
| Net of tax amount | (160) | 359 | (2,878) | 574 |
| Pension plan benefit adjustment: | | | | |
| Related to actuarial losses and prior service cost | 66 | 71 | 198 | 214 |
| Tax effect | (22) | (24) | (67) | (73) |
| Net of tax amount | 44 | 47 | 131 | 141 |
| Total other comprehensive (loss) income | (116) | 406 | (2,747) | 715 |
| Comprehensive income | $1,850 | $1,879 | $2,242 | $4,592 |

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 nine months ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | $4,989 | $3,877 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization and impairment adjustment of mortgage loan servicing rights | (34) | 304 |
| Premiums and discounts on investment securities, net | 222 | 181 |
| Premiums and discounts on mortgage-backed securities, net | 323 | 229 |
| Amortization of premiums on certificates of deposit | 98 | — |
| Deferred loan origination costs, net | 142 | 132 |
| Provision for loan losses | 839 | 1,750 |
| Amortization of core deposit intangible | 25 | — |
| Depreciation of premises and equipment | 506 | 573 |
| Increase in value of bank owned life insurance | (416) | (456) |
| Income from life insurance death benefit | (934) | — |
| Stock-based compensation | 588 | 366 |
| Proceeds from sale of loans originated for sale | 28,813 | 39,656 |
| Origination of loans held for sale | (28,468) | (39,512) |
| Gain on acquisition | (1,214) | — |
| Loss on foreclosed real estate | 448 | 425 |
| Gain on : | | |
| Sale of loans | (635) | (920) |
| Disposition of premises and equipment | (420) | (277) |
| Decrease in: | | |
| Accrued interest receivable | 167 | 5 |
| Other assets | 1,642 | 644 |
| (Decrease) increase in: | | |
| Accrued interest payable | (94) | (432) |
| Other liabilities | 424 | 944 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,011 | 7,489 |
| INVESTING ACTIVITIES | | |
| Loan originations | (86,727) | (110,383) |
| Loan principal payments | 91,605 | 65,723 |
| Proceeds from sale of foreclosed real estate | 1,641 | 6,736 |
| Proceeds from disposition of premises and equipment | 417 | 356 |
| Proceeds from maturities of investment securities available for sale | 5,545 | 5,300 |
| Proceeds from bank owned life insurance | 2,183 | — |
| Principal repayments on mortgage-backed securities held to maturity | 505 | 506 |

| | | |
|---|---|---|
| Principal repayments on mortgage-backed securities available for sale | 14,975 | 20,489 |
| Purchase of investment securities available for sale | (13,088) | (4,260) |
| Purchase of mortgage-backed securities available for sale | (1,867) | (13,520) |
| Purchase of premises and equipment | (899) | (387) |
| Redemption of FHLB stock | 2,395 | 1,408 |
| Acquisition, net of cash acquired | (3,173) | — |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 13,512 | (28,032) |

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the nine months ended September 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| FINANCING ACTIVITIES | | |
| Net decrease in deposits | (6,339) | (18,015) |
| Net increase in short-term FHLB borrowings | — | 14,304 |
| Proceeds of long-term FHLB borrowings | — | 32,197 |
| Repayment of long-term FHLB borrowings | (12,717) | (18,253) |
| Net decrease in advances from borrowers for taxes and insurance | (965) | (505) |
| Purchase of treasury stock | (274) | — |
| Exercise of stock options | 216 | 7 |
| Tax benefit (expense) arising from exercise of stock options | 2 | (1) |
| Common stock dividends paid | (579) | (407) |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES | (20,656) | 9,327 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (133) | (11,216) |
| Cash and cash equivalents at beginning of period | 31,137 | 14,928 |
| Cash and cash equivalents at end of period | $31,004 | $3,712 |
| | | |
| Supplemental disclosure of cash flow information | | |
| Cash paid for: | | |
| Interest on deposits and borrowings | $3,121 | $4,321 |
| Income taxes | $875 | $375 |
| Noncash transactions: | | |
| Capitalization of mortgage servicing rights | $305 | $404 |
| Transfers from loans to foreclosed real estate | $557 | $2,925 |
| | | |
| Acquisition of Roebling Financial Corp, Inc. | | |
| Noncash assets acquired: | | |
| Investment securities | | |
| Available for sale | $37,260 | |
| Held to maturity | 79 | |
| Loans | 102,026 | |
| FHLB stock | 389 | |
| Accrued interest receivable | 376 | |
| Premises and equipment, net | 2,154 | |
| Core deposit intangible | 553 | |
| Bank owned life insurance | 175 | |
| Other assets | 1,685 | |
| | 144,697 | |
| Liabilities assumed: | | |
| Deposits | 127,750 | |
| Advances from the FHLB | 3,051 | |

| | |
|---|---|
| Advances from borrowers for taxes and insurance | 429 |
| Other liabilities | 1,408 |
| | 132,638 |
| Net noncash assets acquired | 12,059 |
| Cash acquired | $4,081 |

The accompanying notes are an integral part of these statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of September 30, 2013 (unaudited) and December 31, 2012 and for the three and nine-month periods ended September 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 September 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.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a significant impact on the Company’s financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the

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reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

NOTE 4 — ACQUISITION OF ROEBLING FINANCIAL CORP, INC.

On July 2, 2013, the Company closed on a merger transaction pursuant to which the Company acquired Roebling Financial Corp, Inc. ("Roebling"), the parent company of Roebling Bank, in a stock and cash transaction.

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of Roebling for a total purchase price of approximately $14.9 million. As a result of the acquisition, the Company issued 306,873 common shares, or 20.31% of the total shares outstanding as of September 30, 2013, to former shareholders of Roebling. As a result of the merger, Roebling was merged with and into the Company, and Roebling Bank was merged with and into 3rd Fed Bank.

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The following table summarizes the purchase of Roebling as of July 2, 2013:

| | At July 2, 2013 (in thousands, except per share data) | |
|---|---|---|
| Purchase Price Consideration in Common Stock | | |
| Roebling common shares settled for stock | 843,058 | |
| Exchange Ratio | 0.364 | |
| TF Financial Corporation shares issued | 306,873 | |
| Value assigned to TF Financial Corporation common share | $25.00 | |
| Purchase price assigned to Roebling common shares exchanged for TF Financial | | $7,672 |
| | | |
| Purchase Price Consideration - Cash for Common Stock | | |
| Roebling shares exchanged for cash | 843,478 | |
| Purchase price paid to each Roebling common share exchanged for cash | $8.60 | |
| Purchase price assigned to Roebling common shares exchanged for cash | | 7,254 |
| | | |
| Total Purchase Price | | 14,926 |
| | | |
| Net Assets Acquired: | | |
| | | |
| Roebling shareholders' equity | $16,461 | |
| | | |
| Adjustments to reflect assets acquired at fair value: | | |
| Investments | 2 | |
| Loans | | |
| Interest rate | 932 | |
| General credit | (1,069) | |
| Specific credit - non-amortizing | (325) | |
| Specific credit - amortizing | (198) | |
| Eliminate allowance for loan losses | 1,214 | |
| Core deposit intangible | 553 | |
| Owned premises | (976) | |
| Leased premises contracts | 33 | |
| Deferred tax assets | (276) | |
| Other assets | 280 | |
| Adjustments to reflect liabilities acquired at fair value: | | |
| Time deposits | (440) | |
| FHLB advances | (51) | |
| | | 16,140 |
| Purchase gain resulting from acquisition | | $1,214 |

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The following condensed statement reflects the values assigned to Roebling’s net assets as of the acquisition date:

| | | At July 2, 2013 (in thousands) |
|---|---|---|
| Total purchase price | | $14,926 |
| | | |
| Net assets acquired: | | |
| Cash | $4,081 | |
| Investment securities | 37,339 | |
| Loans | 102,026 | |
| Premises and equipment, net | 2,154 | |
| Core deposit intangible | 553 | |
| Other assets | 2,625 | |
| Time deposits | (49,061) | |
| Deposits other than time deposits | (78,689) | |
| Other liabilities | (4,888) | |
| | | 16,140 |
| Purchase gain on acquisition | | $1,214 |

The acquired assets and assumed liabilities were measured at preliminary estimated fair values. Management made certain estimates and exercised judgment in accounting for the acquisition. The following is a description of the methods used to determine fair value of significant assets and liabilities at the acquisition date:

Cash and cash equivalents — The Company acquired $4.1 million in cash and cash equivalents, which management deemed to reflect fair value based on the short term nature of the asset.

Investment Securities — The Company acquired $37.3 million in U.S. Government and federal agency and mortgage-backed securities that were recorded at fair value. Please refer to Note 9 - Fair Value Measurements and Fair Value of Financial Instruments for a discussion of methodologies used to determine fair value.

Loans — The Company acquired $102.0 million in loans with and without evidence of credit quality deterioration. The loans consisted of residential mortgage loans, consumer loans which include second mortgage loans and home equity secured lines of credit, commercial real estate loans and other commercial loans.

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At the acquisition date, the Company recorded $101.2 million of loans without evidence of credit quality deterioration and $797,000 of loans acquired with evidence of credit quality deterioration. The following table reflects the composition of the loans acquired as well as the fair value adjustments made:

| | At July 2, 2013 | | |
|---|---|---|---|
| | Loans acquired with no credit quality deterioration | Loans acquired loans with credit quality deterioration | Total |
| | (in thousands) | | |
| Residential | | | |
| Residential mortgages | $54,965 | $ 21 | $54,986 |
| Commercial | | | |
| Real estate-commercial | 13,262 | — | 13,262 |
| Real estate-residential | 5,143 | 356 | 5,499 |
| Real estate-multi-family | 1,595 | 331 | 1,926 |
| Commercial and industrial loans | 308 | — | 308 |
| Consumer | | | |
| Home equity and second mortgage | 25,847 | 89 | 25,936 |
| Other consumer | 109 | — | 109 |
| Total | $101,229 | $ 797 | $102,026 |

The Company estimated the general credit risk fair value adjustment based on guidance from ASC 820-10, Fair Value Measurements which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no active observable market for sale information on community bank loans and thus Level 3 fair value procedures were utilized, primarily the use of present value techniques incorporating assumptions which market participants would use in estimating fair values. In lieu of reliable market information, the Company used its own assumptions in an effort to determine a reasonable estimate of fair value. Loans acquired without credit quality deterioration were evaluated using a two-part general credit fair value analysis for all loan groups: 1) expected lifetime credit migration losses and 2) estimated fair value adjustment for qualitative factors. An adjustment of $932,000 was made to reflect a general credit risk fair value. Additionally, the Company recorded an increase of $1.1 million to reflect the fair value of loans based on current interest rates on loans similar to those acquired.

A specific credit fair value adjustment was made as prescribed by ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Accordingly, the Company reviewed the Roebling loan portfolio on a loan by loan basis to determine whether loans met the definition of credit impaired as set forth in ASC 310-30. Specifically: 1) Had there been credit deterioration from the loan's inception until the acquisition date and 2) Is it probable that not all of the contractual cash flows will be collected on the loan. Based on this analysis, loans with a principal balance of $1.3 million were identified as being within the scope of ASC 310-30. The Company estimated the cash flows on each loan whether from expected monthly payments or from the liquidation of the underlying collateral on collateral dependent loans. The contractual cash flows in excess of the aggregate expected cash flows resulted in a credit-related non-accretable yield in the amount of $325,000. Additionally, the aggregate expected cash flows less the acquisition date fair value resulted in an accretable yield amount of $198,000.

The following table contains the fair value adjustments on loans acquired without significant credit deterioration:

| Fair value of loans acquired not accounted for under ASC 310-30 | At July 2, 2013 (in thousands) |
| --- | --- |
| Contractual amount of acquired loans at acquisition | $101,365 |
| Contractual cash flows not expected to be collected (general credit valuation) | (1,068) |
| Expected cash flows at acquisition | 100,297 |
| Interest rate fair value adjustment | 932 |
| Total | $101,229 |

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The following table contains the adjustments on loans acquired with credit deterioration:

| Fair value of loans acquired accounted for under ASC 310-30 | At July 2, 2013 (in thousands) |
|---|---|
| Contractual amount of acquired loans at acquisition | $1,320 |
| Contractual cash flows not expected to be collected (non-accretable yield) | (325) |
| Expected cash flows at acquisition | 995 |
| Interest component of expected cash flows (accretable yield) | (198) |
| Total | $797 |

Premises and equipment, net — The Company acquired $2.2 million in land and buildings because of the Roebling merger, which reflects fair value. The fair value as of the acquisition date was determined by an appraisal conducted by an independent qualified appraiser.

Core deposit intangible — The Company recorded a core deposit intangible of $553,000. A core deposit intangible arises from a financial institution having a deposit base comprised of stable customer relationships. These deposits are generally at interest rates or on terms that are favorable to the financial institution. Fair value of the core deposit intangible was estimated based on guidance from ASC 820-10. There is no active observable market for sale information on community bank core deposits and thus Level 3 fair value procedures were utilized, primarily the use of the income approach which is based on an analysis of the expected after tax cash flow benefits of the acquired core deposits versus the cost of utilizing an alternative source (brokered deposits) for its funding. Core deposits exclude certificates of deposit and other accounts, which the Company judged to be non-core deposits. The cost of core deposits incorporated estimates of the costs of maintaining and supporting the deposits such as interest, branch expenses, personnel, and data processing. This cost was compared to the alternative funding source and the resulting economic benefit was discounted over the expected life of the acquired core deposits using a long-term market-based after tax rate of return.

Core deposit intangible is amortized over the expected useful life. The life is periodically reassessed to determine if any amortization period adjustments are required. During the three and nine months ended September 30, 2013, no such adjustments were recorded. The gross carrying amount of the core deposit intangible at September 30, 2013 was $528,000 with $25,000 accumulated amortization as of that date.

As of September 30, 2013, the current year and estimated future amortization expense for the core deposit intangible was as follows:

| | At September 30, 2013 (in thousands) |
|---|---|
| 2013 | $ 76 |
| 2014 | 91 |
| 2015 | 80 |
| 2016 | 70 |
| 2017 | 60 |
| 2018 | 50 |
| 2019 | 40 |
| 2020 | 30 |
| 2021 | 21 |

| | | |
|---|---|---|
| 2022 | | 10 |
| | $ | 528 |

Deposits — The Company assumed $127.8 million in deposits which included $49.1 million of interest-bearing time deposits ("CDs"). An increase of $440,000 was made to reflect the fair value of the CDs. This fair value adjustment is based on guidance derived from ASC 820-10 and is based on current market interest rates on CDs of the same remaining maturity as Roebling's CDs. Market rates were obtained from independent third party sources for CDs offered in New Jersey on or about the acquisition date.

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Results of operations for Roebling prior to the acquisition date are not included in the Consolidated Statement of Income for the three and nine-month periods ended September 30, 2013. The following table presents financial information regarding the former Roebling operations included in the Consolidated Statement of Income from the date of acquisition through September 30, 2013 under the column "Actual from acquisition date through September 30, 2013". In addition, the following table presents unaudited pro forma information as if the acquisition of Roebling had occurred on January 1, 2012 under the "Pro Forma" columns. The table below has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings as a result of the integration and consolidation of the acquisition. Merger and acquisition integration costs and amortization of fair value adjustments net of the related income tax effects are included in the amounts below, but any purchase gain has been excluded.

| | Actual from Acquisition Date Through September 30, 2013 (in thousands) |
|---|---|
| Net interest income | $ 1,119 |
| Noninterest income | 123 |
| Net loss | (840) |

| | Pro Formas | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands, except per share data) | | | |
| Net interest income | $7,759 | $8,698 | $23,917 | $22,130 |
| Noninterest income | 832 | 1,060 | 4,432 | 3,289 |
| Net income | 661 | 1,410 | 3,835 | 4,045 |
| Pro forma earnings per share: | | | | |
| Basic | $0.22 | $0.46 | $1.26 | $1.33 |
| Diluted | $0.22 | $0.46 | $1.26 | $1.33 |

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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 September 30, 2013 | | |
|---|---|---|---|
| | Income (numerator) | Weighted average shares (denominator) | Per share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | $1,966 | 3,051,581 | $0.64 |
| Effect of dilutive securities | | | |
| Stock options and grants | — | 3,903 | — |
| | | | |
| Diluted earnings per share | | | |
| Income available to common stockholders plus effect of dilutive securities | $1,966 | 3,055,484 | $0.64 |

| | For the nine months ended September 30, 2013 | | |
|---|---|---|---|
| | Income (numerator) | Weighted average shares (denominator) | Per share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | $4,989 | 2,845,608 | $1.75 |
| Effect of dilutive securities | | | |
| Stock options and grants | — | 1,316 | — |
| | | | |
| Diluted earnings per share | | | |
| Income available to common stockholders plus effect of dilutive securities | $4,989 | 2,846,924 | $1.75 |

There were 31,963 options to purchase shares of common stock with exercise prices ranging from $25.71 to $32.51 per share which were outstanding during the three and nine months ended September 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 stock.

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| | For the three months ended September 30, 2012 | | |
|---|---|---|---|
| | Income (numerator) | Weighted average shares (denominator) | Per share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | $1,473 | 2,728,534 | $0.54 |
| Effect of dilutive securities | | | |
| Stock options and grants | — | 3,119 | — |
| Diluted earnings per share | | | |
| Income available to common stockholders plus effect of dilutive securities | $1,473 | 2,731,653 | $0.54 |

| | For the nine months ended September 30, 2012 | | |
|---|---|---|---|
| | Income (numerator) | Weighted average shares (denominator) | Per share Amount |
| Basic earnings per share | | | |
| Income available to common stockholders | $3,877 | 2,723,703 | $1.42 |
| Effect of dilutive securities | | | |
| Stock options and grants | — | 3,668 | — |
| Diluted earnings per share | | | |
| Income available to common stockholders plus effect of dilutive securities | $3,877 | 2,727,371 | $1.42 |

There were 65,337 options to purchase shares of common stock with exercise prices ranging from $23.53 to $32.51 per share which were outstanding during the three and nine months ended September 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 stock.

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NOTE 6 — ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The activity in accumulated other comprehensive (loss) income for the three months ended September 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 | Total |
| | | (in thousands) | |
| Balance at June 30, 2013 | $ 1,087 | $ (2,748) | $ (1,661) |
| Other comprehensive loss before reclassifications | (160) | — | (160) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 44 | 44 |
| Period change | (160) | 44 | (116) |
| Balance at September 30, 2013 | $ 927 | $ (2,704) | $ (1,777) |
| | | | |
| Balance at June 30, 2012 | $ 3,864 | $ (2,809) | $ 1,055 |
| Other comprehensive income before reclassifications | 359 | — | 359 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 47 | 47 |
| Period change | 359 | 47 | 406 |
| Balance at September 30, 2012 | $ 4,223 | $ (2,762) | $ 1,461 |

(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 (loss) For the three months ended September 30, (2) | | Affected line item in the consolidated statements of income |
|---|---|---|---|
| | 2013 | 2012 | |
| | (in thousands) | | |
| 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.

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The activity in accumulated other comprehensive (loss) income for the nine months ended September 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 | Total |
| | | (in thousands) | |
| Balance at December 31, 2012 | $ 3,805 | $ (2,835) | $ 970 |
| Other comprehensive loss before reclassifications | (2,878) | — | (2,878) |
| Amounts reclassified from accumulated other comprehensive income | — | 131 | 131 |
| Period change | (2,878) | 131 | (2,747) |
| Balance at September 30, 2013 | $ 927 | $ (2,704) | $ (1,777) |
| | | | |
| Balance at December 31, 2011 | $ 3,649 | $ (2,903) | $ 746 |
| Other comprehensive income before reclassifications | 574 | — | 574 |
| Amounts reclassified from accumulated other comprehensive income | — | 141 | 141 |
| Period change | 574 | 141 | 715 |
| Balance at September 30, 2012 | $ 4,223 | $ (2,762) | $ 1,461 |

(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 (loss) For the nine months ended September 30, (2) | | Affected line item in the consolidated statements of income |
|---|---|---|---|
| | 2013 | 2012 | |
| | (in thousands) | | |
| Defined benefit pension plan (1) | | | |
| Amortization of net actuarial loss | $ 198 | $ 214 | Compensation and benefits |
| Related income tax expense | (67) | (73) | Income tax expense |
| Net effect on accumulated other comprehensive income for the period | $ 131 | $ 141 | 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.

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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 September 30, 2013 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (in thousands) | | | |
| Available for sale | | | | |
| U.S. Government and federal agencies | $22,576 | $34 | $(311) | $22,299 |
| State and political subdivisions | 58,571 | 1,721 | (687) | 59,605 |
| Residential mortgage-backed securities issued by quasi-governmental agencies | 46,522 | 749 | (101) | 47,170 |
| Total investment securities available for sale | 127,669 | 2,504 | (1,099) | 129,074 |
| | | | | |
| Held to maturity | | | | |
| Residential mortgage-backed securities issued by quasi-governmental agencies | 1,540 | 179 | — | 1,719 |
| Total investment securities | $129,209 | $2,683 | $(1,099) | $130,793 |

| | At December 31, 2012 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| | (in thousands) | | | |
| 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 nine months ended September 30, 2013 or 2012.

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

| | At September 30, 2013 | | | |
|---|---|---|---|---|
| | Available for sale | | Held to maturity | |
| | Amortized cost | Fair value | Amortized cost | Fair value |
| | (in thousands) | | | |
| Investment securities | | | | |
| Due in one year or less | $1,649 | $1,681 | $— | $— |
| Due after one year through five years | 19,218 | 19,564 | — | — |
| Due after five years through ten years | 39,321 | 39,373 | — | — |
| Due after ten years | 20,959 | 21,286 | — | — |
| | 81,147 | 81,904 | — | — |
| Mortgage-backed securities | 46,522 | 47,170 | 1,540 | 1,719 |
| Total investment and mortgage-backed securities | $127,669 | $129,074 | $1,540 | $1,719 |

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

| 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) | | | | | | |
| U.S. Government and federal agencies | 10 | $ 14,325 | $ (311 ) | $ — | $ — | $ 14,325 | $ (311 ) |
| State and political subdivisions | 17 | 15,751 | (687 ) | — | — | 15,751 | (687 ) |
| Residential mortgage-backed securities issued by quasi-governmental agencies | 37 | 16,100 | (101 ) | — | — | 16,100 | (101 ) |
| Total temporarily impaired securities | 64 | $ 46,176 | $ (1,099 ) | $ — | $ — | $ 46,176 | $ (1,099 ) |

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 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 | 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 September 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.

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NOTE 8 — LOANS RECEIVABLE

Loans receivable are summarized as follows:

| | At September 30, 2013 | At December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Held for investment: | | |
| Residential | | |
| Residential mortgages | $ 379,358 | $ 323,665 |
| | | |
| Commercial | | |
| Real estate-commercial | 122,635 | 104,766 |
| Real estate-residential | 25,852 | 21,570 |
| Real estate-multi-family | 18,625 | 19,118 |
| Construction loans | 9,351 | 16,288 |
| Commercial and industrial loans | 5,885 | 4,646 |
| Total commercial loans | 182,348 | 166,388 |
| | | |
| Consumer | | |
| Home equity and second mortgage | 64,377 | 40,143 |
| Other consumer | 1,813 | 1,835 |
| Total consumer loans | 66,190 | 41,978 |
| | | |
| Total loans | 627,896 | 532,031 |
| Net deferred loan origination costs, and unamortized premiums and discounts | 1,125 | 1,611 |
| Less allowance for loan losses | (6,691) | (6,922) |
| Total loans receivable | $ 622,330 | $ 526,720 |
| | | |
| Held for sale: | | |
| Residential | | |
| Residential mortgages | $ 691 | $ 706 |

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

| | At September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Pass | Special mention | Substandard | Doubtful | Total |
| | | | (in thousands) | | |
| Real estate-commercial | $106,412 | $7,194 | $9,029 | $— | $122,635 |
| Real estate-residential | 22,828 | 490 | 2,534 | — | 25,852 |
| Real estate-multi-family | 14,957 | — | 3,668 | — | 18,625 |
| Construction loans | 6,174 | — | 3,177 | — | 9,351 |
| Commercial and industrial loans | 5,853 | 32 | — | — | 5,885 |
| Total | $156,224 | $7,716 | $18,408 | $— | $182,348 |

| | At December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Pass | Special mention | Substandard | Doubtful | Total |
| | | | (in thousands) | | |
| 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

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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 September 30, 2013 | | |
|---|---|---|---|
| | Performing | Nonperforming | Total |
| | | (in thousands) | |
| Residential mortgages | $377,257 | $ 2,101 | $379,358 |
| Home equity and second mortgage | 64,160 | 217 | 64,377 |
| Other consumer | 1,812 | 1 | 1,813 |
| Total | $443,229 | $ 2,319 | $445,548 |

| | 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.

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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:

| | At | | | |
|---|---|---|---|---|
| | September 30, 2013 | | December 31, 2012 | |
| | (in thousands) | | | |
| Residential | | | | |
| Residential mortgages | $ | 2,101 | $ | 2,265 |
| Commercial | | | | |
| Real estate-commercial | | 785 | | 1,098 |
| Real estate-residential | | 684 | | 51 |
| Real estate-multi-family | | 149 | | — |
| Construction loans | | 2,944 | | 4,794 |
| Consumer | | | | |
| Home equity and second mortgage | | 217 | | 143 |
| Other consumer | | 1 | | 8 |
| Total nonperforming loans | $ | 6,881 | $ | 8,359 |
| Total loans past due 90 days as to interest or principal and accruing interest | $ | — | $ | — |

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

| | At September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
| | | | (in thousands) | | |
| With an allowance recorded: | | | | | |
| Residential | | | | | |
| Residential mortgages | $1,209 | $1,217 | $85 | $1,831 | $— |
| Commercial | | | | | |
| Real estate-commercial | — | — | — | 137 | — |
| Real estate-residential | 342 | 342 | 47 | 86 | — |
| Construction loans | 2,944 | 3,142 | 2,000 | 3,832 | — |
| | 4,495 | 4,701 | 2,132 | 5,886 | — |
| With no allowance recorded: | | | | | |
| Commercial | | | | | |
| Real estate-commercial | 552 | 552 | — | 552 | — |
| Real estate-residential | — | — | — | 136 | — |
| Loans acquired with deteriorated credit quality | 813 | 1,320 | — | 271 | — |
| | 1,365 | 1,872 | — | 959 | — |
| Total | $5,860 | $6,573 | $2,132 | $6,845 | $— |

| | At December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
| | | | (in thousands) | | |
| 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 | | |