ESSA Bancorp, Inc.
Form 10-K
December 11, 2009
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SECURITIES AND EXCHANGE COMMISSION

100 F Street NE

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended September 30, 2009

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 No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-8023072**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania	**18360**
(Address of Principal Executive Offices)	**Zip Code**

(570) 421-0531

(Registrant s telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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

As of December 8, 2009, there were 16,980,900 shares issued and 14,595,320 shares outstanding of the Registrant s Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on December 8, 2009, was $153,839,716.

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DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2010 Annual Meeting of Stockholders of the Registrant (Part III).

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PART I

Item 1. Business

Forward Looking Statements

This Annual Report contains certain forward-looking statements which may be identified by the use of words such as believe, expect, anticipate, should, planned, estimated and potential. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

ESSA Bancorp, Inc.

ESSA Bancorp, Inc. is the Pennsylvania-chartered stock holding company of ESSA Bank & Trust. ESSA Bancorp, Inc. owns 100% of the outstanding shares of common stock of ESSA Bank & Trust. Since being formed in 2006, ESSA Bancorp, Inc. has engaged primarily in the business of holding the common stock of ESSA Bank & Trust. Our executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. ESSA Bancorp, Inc. is subject to comprehensive regulation and examination by the Office of Thrift Supervision. At September 30, 2009, ESSA Bancorp, Inc. had consolidated assets of $1.04 billion, consolidated deposits of $408.9 million and consolidated stockholders equity of $185.5 million. Its consolidated net income for the fiscal year ended September 30, 2009 was $6.6 million.

On April 3, 2007, ESSA Bancorp, Inc. consummated its stock offering, resulting in gross proceeds of $158.7 million, through the sale of 15,870,000 shares at a price of $10.00 per share. ESSA Bancorp, Inc. also contributed 1,110,900 shares of its common stock to the ESSA Bank & Trust Foundation along with $1.6 million in cash. Expenses related to the offering were approximately $2.9 million, which resulted in net proceeds of approximately $155.8 million prior to the contribution to the ESSA Bank & Trust Foundation.

ESSA Bancorp, Inc. loaned approximately $13.6 million to the ESSA Bank & Trust s Employee Stock Ownership Plan. ESSA Bancorp, Inc. retained approximately $64.3 million of the net proceeds of the offering prior to the contribution to the ESSA Bank & Trust Foundation, and the remainder of the net proceeds were contributed to ESSA Bank & Trust.

ESSA Bank & Trust

General

ESSA Bank & Trust was organized in 1916. ESSA Bank & Trust is a Pennsylvania chartered full-service, community-oriented savings association. We provide financial services to individuals, families and businesses through our thirteen full-service banking offices, located in Monroe and Northampton Counties, Pennsylvania. ESSA Bank & Trust is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and the Office of Thrift Supervision.

ESSA Bank & Trust s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential first mortgage loans (including construction mortgage loans), commercial real estate loans, home equity loans and lines of credit, commercial and consumer loans. We offer a variety of deposit accounts, including checking, savings and certificates of deposits. We also offer asset management and trust services. We offer investment services through our relationship with PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor.

ESSA Bank & Trust s executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. Our website address is www.essabank.com.

The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (SEC). All filed SEC reports and interim filings can be obtained from the Bank s website, on the Investor Relations page, without charge from the Company.

Market Area

At September 30, 2009, our thirteen full-service banking offices consisted of twelve offices in Monroe County and one office in Northampton County, Pennsylvania. Our primary market for deposits is currently concentrated around the areas where our full-service banking offices are located. Our primary lending area consists of the counties where our branch offices are located, and to a lesser extent, the contiguous counties in the Commonwealth of Pennsylvania.

Monroe County is located in eastern Pennsylvania, situated 90 miles north of Philadelphia, 75 miles west of New York and 116 miles northeast of Harrisburg. Monroe County is comprised of 611 square miles of mostly rural terrain. Monroe County is the second-fastest growing county in Pennsylvania. Major industries include tourism, construction and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. As of June 30, 2009, we had a deposit market share of approximately 19.7% in Monroe County, which represented the second largest deposit market share in Monroe County and less than 1.0% in Northampton County.

Lending Activities

Historically, our principal lending activity has been the origination of first mortgage loans for the purchase, construction or refinancing of one- to four-family residential real property. During the past five years, we have increased our originations of commercial real estate loans in an effort to increase interest income, diversify our loan portfolio, and better serve the community. These loans have increased from 7.2% of our total loan portfolio at September 30, 2005 to $68.0 million, or 9.2% of our total loan portfolio at September 30, 2009. One- to four-family residential real estate mortgage loans represented $603.8 million, or 81.7%, of our loan portfolio at September 30, 2009. Home equity loans and lines of credit totaled $46.8 million, or 6.3% of our loan portfolio at September 30, 2009. Commercial loans totaled $16.5 million, or 2.2% of our loan portfolio at September 30, 2009 and construction first mortgage loans totaled $1.7 million, or 0.2% of the total loan portfolio at September 30, 2009. We originate other consumer loans on a limited basis.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At September 30,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential first mortgage loans:										
One- to four-family	$ 603,830	81.7%	$ 572,038	80.3%	$ 500,104	80.0%	$ 452,406	80.4%	$ 421,169	81.7%
Construction	1,707	0.2	8,254	1.1	7,800	1.3	5,943	1.1	7,597	1.5
Commercial	16,452	2.2	11,987	1.7	7,699	1.2	6,159	1.1	5,310	1.0
Commercial real estate	68,040	9.2	69,505	9.8	58,447	9.3	47,479	8.4	36,984	7.2
Home equity loans and lines of credit	46,792	6.3	47,508	6.7	47,544	7.6	46,796	8.3	40,342	7.8
Other	2,526	0.4	3,059	0.4	3,875	0.6	4,247	0.7	4,204	0.8
Total loans receivable	$ 739,347	100.0%	$ 712,351	100.0%	$ 625,469	100.0%	$ 563,030	100.0%	$ 515,606	100.0%
Deferred loan costs (fees)	48		(546)		(1,418)		(2,498)		(3,062)	
Allowance for loan losses	(5,815)		(4,915)		(4,206)		(3,855)		(3,563)	
Total loans receivable, net	$ 733,580		$ 706,890		$ 619,845		$ 556,677		$ 508,981	

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2009. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to Four-Family		Construction		Commercial		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending September 30,								
2010	$ 94	6.85%	$		$ 3,607	4.29%	$ 5,220	6.36%
2011	680	5.88%			215	7.45%	1,602	6.51%
2012	651	6.52%			943	7.19%	1,638	6.42%
2013 to 2014	8,290	5.11%			1,000	6.89%	7,503	6.46%
2015 to 2019	85,399	5.08%			3,421	4.52%	34,919	6.40%
2020 to 2024	130,326	5.22%			2,266	5.23%	3,455	6.27%
2024 and beyond	378,390	5.92%	1,707	5.22%	5,000	4.55%	13,703	5.77%
Total	$ 603,830	5.64%	$ 1,707	5.22%	$ 16,452	4.91%	$ 68,040	6.27%

	Home Equity Loans and Lines of Credit		Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending September 30,						
2010	$ 524	6.62%	$ 833	6.83%	$ 10,278	5.69%
2011	273	6.58%	229	8.90%	2,999	6.63%
2012	578	6.69%	328	9.01%	4,138	6.85%
2013 to 2014	2,101	5.79%	1,014	7.66%	19,908	5.91%
2015 to 2019	8,657	6.31%	122	7.98%	132,518	5.50%
2020 to 2024	19,899	5.55%			155,946	5.29%
2024 and beyond	14,760	3.30%			413,560	5.80%
Total	$ 46,792	5.02%	$ 2,526	7.69%	$ 739,347	5.65%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2009 that are contractually due after September 30, 2010.

	Due After September 30, 2010		
	Fixed	Adjustable	Total
		(In thousands)	
Residential first mortgage loans:			
One- to four-family	$ 539,849	$ 63,887	$ 603,736
Construction	1,694	13	1,707
Commercial	11,292	1,553	12,845
Commercial real estate	29,569	33,251	62,820
Home equity loans and lines of credit	25,778	20,490	46,268
Other	1,693		1,693

Total	$ 609,875	$ 119,194	$ 729,069

Loan Originations and Repayments. Historically, we have originated residential mortgage loans pursuant to underwriting standards that generally conform to Fannie Mae and Freddie Mac guidelines. Loan origination activities are primarily concentrated in Monroe and Northampton Counties, Pennsylvania and secondarily from other Pennsylvania counties contiguous to Monroe County. New loans are generated primarily from the efforts of employees and advertising, a network of select mortgage brokers, other parties with whom we do business, customer referrals, and from walk-in customers. Loan applications are underwritten and processed at our corporate center.

One- to Four-Family Residential Loans. Historically, our primary lending activity has consisted of the origination of one- to four-family residential mortgage loans secured primarily by properties located in Monroe and

Northampton Counties, Pennsylvania. At September 30, 2009, approximately $603.8 million, or 81.7% of our loan portfolio, consisted of one- to four-family residential loans. Our origination of one- to four-family loans increased in fiscal year 2009 compared to fiscal years 2008 and 2007. Originations in fiscal year 2009 were positively influenced by a significant amount of refinancing activity due to record low mortgage rates. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, although loans may be made with higher loan-to-value ratios at a higher interest rate to compensate for the risk. Private mortgage insurance is generally required on loans with a loan-to-value ratio in excess of 80%. Fixed-rate loans are originated for terms of 10, 15, 20 and 30 years. At September 30, 2009, our largest loan secured by one- to four-family real estate had a principal balance of approximately $804,000 and was secured by a single family house. This loan was performing in accordance with its repayment terms.

We also offer adjustable-rate mortgage loans which have fixed terms of one, three, five or ten-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated $5.0 million of adjustable rate one- to four-family residential loans during the year ended September 30, 2009 and $12.3 million during the year ended September 30, 2008. Our adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 500 basis points. Our adjustable rate mortgage loans amortize over terms of up to 30 years.

Adjustable rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the principal and interest payments on the loan increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments, permitted by our loan documents; and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At September 30, 2009, $63.9 million, or 10.6%, of our one- to four-family residential loans had adjustable rates of interest.

All one- to four-family residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

Regulations limit the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. For all purchase money loans, we utilize outside independent appraisers approved by the Board of Directors. All purchase money borrowers are required to obtain title insurance. Certain modest refinance requests may utilize an automated valuation model and title search. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Home Equity Loans and Lines of Credit. Home equity loans and lines of credit are generated almost exclusively by our branch staff. Eligible properties include primary and vacation homes in northeastern Pennsylvania, with the large majority of loans being originated in Monroe County. As of September 30, 2009, home equity loans and lines totaled about $46.8 million, or 6.3% or our loan portfolio.

The maximum combined loan-to-value originated is currently 70-80%, depending on the collateral and the holder of the first mortgage. There is a modest portion of the portfolio originated in years past that contains original combined loan-to-values of up to 90%. Our home equity lines of credit typically feature a 10 year draw period with interest-only payments permitted, followed by another 10 years of fully amortizing payments with no further ability to draw funds. Similar combined loan-to-value characteristics and standards exist for the lines as are outlined above for the loans.

Loan underwriting standards restrict the size of a junior lien loan to $200,000. All loans exceeding 70-75% of value require an appraisal by bank-approved, licensed appraisers. Loans with lesser loan-to-value ratios may have utilized either automated valuation models or county tax assessments. Title/lien searches are secured on all home equity loans and lines greater than $25,000.

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Commercial Real Estate Loans. At September 30, 2009, $68.0 million, or 9.2% of our total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. We generally originate adjustable rate commercial real estate loans with an initial term of five years and a repricing option, and a maximum term of up to 25 years. The maximum loan-to-value ratio of our commercial real estate loans is 85%. At September 30, 2009, we had 269 commercial real estate loans with an outstanding balance of $68.0 million. At September 30, 2009, our largest commercial real estate loan balance was $2.6 million, which was performing in accordance with its terms. At September 30, 2009, four of our loans secured by commercial real estate totaling $580,000 were not performing in accordance with their terms and were on nonaccrual status.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service. All commercial real estate loans in excess of $250,000 are appraised by outside independent appraisers approved by the Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will occasionally consider waiving this requirement based upon the loan-to-value ratio of the proposed loan. All purchase money and asset refinance borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Loans secured by commercial real estate generally are considered to present greater risk than one- to four-family residential loans. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

First Mortgage Construction Loans. At September 30, 2009, $1.7 million, or 0.2%, of our total loan portfolio consisted of first mortgage construction loans. Most of our first mortgage construction loans are for the construction of residential properties. We currently offer fixed and adjustable-rate residential first mortgage construction loans. First mortgage construction loans are generally structured for permanent mortgage financing once the construction is completed. At September 30, 2009, our largest first mortgage construction loan balance was $391,000. The loan was performing in accordance with its terms. First mortgage construction loans, once converted to permanent financing, generally repay over a thirty-year period. First mortgage construction loans require only the payment of interest during the construction period. First mortgage construction loans will generally be made in amounts of up to 80% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on our inspections in accordance with a schedule reflecting the completion of portions of the project.

First mortgage construction loans generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. The risk of loss on a construction loan depends upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost of construction.

For all loans, we utilize outside independent appraisers approved by the Board of Directors. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance on properties.

Other Loans. We offer a variety of loans that are either unsecured or secured by property other than real estate. These loans include loans secured by deposits, personal loans and automobile loans. At September 30, 2009, these other loans totaled $2.5 million, or 0.4% of the total loan portfolio.

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Loan Approval Procedures and Authority. The loan approval process is intended to assess the borrower s ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower s ability to repay, we review each borrower s employment and credit history and information on the historical and projected income and expenses of mortgagors. All residential mortgage loans in excess of the conforming loan limit but not more than $500,000 must be approved by one of the following: President or Chief Lending Officer. All loans in excess of $500,000 but not more than $750,000 must be approved by any two of the following: President, Chief Lending Officer and the Vice President, Branch Administration. All loans in excess of $750,000 to $1.25 million must be approved by the Management Loan Committee. The Management Loan Committee consists of the President, Chief Lending Officer, Vice President, Branch Administration and Vice President, Commercial Lending. All loans in excess of $1.25 million must be approved by the Board of Directors.

Non-Performing Loans and Problem Assets

After a real estate secured loan becomes 15 days late, we deliver a computer generated late charge notice to the borrower and will attempt to contact the borrower by telephone. When a loan becomes 30 days delinquent, we send a delinquency letter to the borrower. We then attempt to make satisfactory arrangements to bring the account current, including interviewing the borrower, until the mortgage is brought current or a determination is made to recommend foreclosure, deed-in-lieu of foreclosure or other appropriate action. After 60 days, we will generally refer the matter to the Board of Directors who may authorize legal counsel to commence foreclosure proceedings.

Mortgage loans are reviewed on a regular basis and such loans are placed on non-accrual status when they become more than 90 days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and further income is recognized only to the extent received.

Non-performing Loans. At September 30, 2009, $5.2 million (or less than 1.0% of our total loans) were non-performing loans. The majority of these loans, or $3.8 million, were residential first mortgage loans that were 90 days or more past due or troubled debt restructured loans that were considered non-performing at September 30, 2009.

Real Estate Owned. At September 30, 2009, the Company had $2.6 million of real estate owned consisting of four properties. The majority of the Company s real estate owned consisted of one real estate development project valued at $2.1 million at September 30, 2009. All these properties are being actively marketed and additional losses may occur.

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Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At September 30,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Non-accrual loans:					
Residential first mortgage loans:					
One- to four-family	$ 3,524	$ 1,379	$ 380	$ 436	$ 554
Construction					
Commercial	122				
Commercial real estate	580	2,531	122		
Home equity loans and lines of credit	180	28	53	40	50
Other	159				1
Total	4,565	3,938	555	476	605
Accruing loans 90 days or more past due:					
Residential first mortgage loans:					
One- to four-family					
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other					
Total loans 90 days or more past due					
Troubled debt restructurings	589				
Total non-performing loans	5,154	3,938	555	476	605
Real estate owned	2,579	31			19
Total non-performing assets	$ 7,733	$ 3,969	$ 555	$ 476	$ 624
Troubled debt restructurings: *					
Residential first mortgage loans:					
One- to four-family	$ 2,981	$ 149	$ 482	$ 53	$ 94
Construction					
Commercial					
Commercial real estate	180				
Home equity loans and lines of credit	7				
Other					
Total	$ 3,168	$ 149	$ 482	$ 53	$ 94
Ratios:					
Total non-performing loans to total loans	0.70%	0.55%	0.09%	0.08%	0.12%
Total non-performing loans to total assets	0.49%	0.40%	0.06%	0.07%	0.09%
Total non-performing assets to total assets	0.74%	0.40%	0.06%	0.07%	0.10%

For the year ended September 30, 2009, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $422,000.

* Non-performing troubled debt restructurings of $589,000 are included in total trouble debt restructures.

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Delinquencies. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent for 90 days or more are generally classified as nonaccrual loans.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2009						
Residential first mortgage loans:						
One- to four-family	11	$ 1,795	19	$ 3,524	30	$ 5,319
Construction						
Commercial			2	122	2	122
Commercial real estate	4	537	4	580	8	1,117
Home equity loans and lines of credit			5	180	5	180
Other	1	6	3	159	4	165
Total	16	$ 2,338	33	$ 4,565	49	$ 6,903
At September 30, 2008						
Residential first mortgage loans:						
One- to four-family	1	$ 118	9	$ 1,379	10	$ 1,497
Construction						
Commercial						
Commercial real estate			4	2,531	4	2,531
Home equity loans and lines of credit	1	37	1	28	2	65
Other						
Total	2	$ 155	14	$ 3,938	16	$ 4,093
At September 30, 2007						
Residential first mortgage loans:						
One- to four-family	2	$ 405	4	$ 380	6	$ 785
Construction						
Commercial						
Commercial real estate	1	25			1	25
Home equity loans and lines of credit			1	53	1	53
Other						
Total	3	$ 430	5	$ 433	8	$ 863
At September 30, 2006						
Residential first mortgage loans:						
One- to four-family		$	5	$ 436	5	$ 436
Construction						
Commercial						
Commercial real estate	1	49			1	49
Home equity loans and lines of credit			1	40	1	40
Other						
Total	1	$ 49	6	$ 476	7	$ 525
At September 30, 2005						
Residential first mortgage loans:						
One- to four-family	4	$ 590	8	$ 554	12	$ 1,144
Construction						
Commercial						
Commercial real estate						

Home equity loans and lines of credit	1		16	3		50	4		66
Other				1		1	1		1
Total	5	$	606	12	$	605	17	$	1,211

Classified Assets. Banking regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions,

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and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, thereby adversely affecting the repayment of the asset.

On the basis of management s review of its assets, at September 30, 2009, we classified approximately $12.8 million of our assets as special mention, $12.9 million as substandard, $194,000 as doubtful, and none as loss.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. Our allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an unallocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the fair value of collateral method, taking into account the appraised value, any valuation assumptions used, estimated costs to sell and trends in the market since the appraisal date. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management s judgement as to the collectability of principal. The allowance for loan losses as of September 30, 2009 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the Office of Thrift Supervision and the Pennsylvania Department of Banking, as an integral part of its examination process, periodically review our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on its analysis and review of information available to it at the time of its examination.

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The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or For the Years Ended September 30,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Balance at beginning of year	$ 4,915	$ 4,206	$ 3,855	$ 3,563	$ 3,027
Charge-offs:					
Residential first mortgage loans:					
One- to four-family	(117)	(60)	(7)		(10)
Construction					
Commercial	(9)	(87)			
Commercial real estate	(457)				
Home equity loans and lines of credit	(20)	(19)	(2)	(7)	
Other		(27)	(1)	(2)	(5)
Total charge-offs	$ (603)	$ (193)	$ (10)	$ (9)	$ (15)
Recoveries:					
Residential first mortgage loans:					
One- to four-family	$	$	$	$	$
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other	3	2	1	1	1
Total recoveries	$ 3	$ 2	$ 1	$ 1	$ 1
Net charge-offs	$ (600)	$ (191)	$ (9)	$ (8)	$ (14)
Provision for loan losses	1,500	900	360	300	550
Balance at end of year	$ 5,815	$ 4,915	$ 4,206	$ 3,855	$ 3,563
Ratios:					
Net charge-offs to average loans outstanding	0.08%	0.03%	%	%	%
Allowance for loan losses to non-performing loans at end of year	112.82%	124.81%	757.84%	809.87%	588.93%
Allowance for loan losses to total loans at end of year	0.79%	0.69%	0.67%	0.69%	0.70%

As indicated in the table above, we charged off a de minimus amount of loans since fiscal year 2005, due, in part, to conservative underwriting of loans and aggressive monitoring of the loan portfolio to identify and address non-performing loans and potential problem assets at an early date. The amount of foreclosures we incurred in the last five years was not material to our financial statements taken as a whole and ESSA Bank & Trust suffered no material losses on foreclosed assets during that period. See Non-Performing Loans and Problem Assets. There can be no assurance that we will not experience a deterioration of our loan portfolio, including increases in non-performing loans, problem assets and charge-offs, in the future.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the percent of the allowance to the total allowance and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2009			2008			2007		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
Residential first mortgage loans:									
One- to four-family	$ 3,796	65.28%	81.70%	$ 2,862	58.23%	80.30%	$ 2,241	53.28%	79.96%
Construction	11	0.19	0.20	41	0.83	1.16	36	0.86	1.25
Commercial	248	4.27	2.20	182	3.70	1.68	177	4.21	1.23
Commercial real estate	1,116	19.19	9.20	1,222	24.86	9.76	986	23.44	9.34
Home equity loans and lines of credit	510	8.77	6.30	475	9.67	6.67	610	14.50	7.60
Other	33	0.56	0.40	30	0.61	0.43	49	1.17	0.62
Total allocated allowance	5,714	98.26	100.00	4,812	97.90	100.00	4,099	97.46	100.00
Unallocated allowance	101	1.74		103	2.10		107	2.54	
Total allowance for loan losses	$ 5,815	100.00%	100.00%	$ 4,915	100.00%	100.00%	$ 4,206	100.00%	100.00%

	2006			2005		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
			(Dollars in thousands)			
Residential first mortgage loans:						
One- to four-family	$ 2,026	52.56%	80.36%	$ 1,887	52.96%	81.68%
Construction	86	2.23	1.06	104	2.92	1.47
Commercial	133	3.45	1.09	114	3.20	1.03
Commercial real estate	773	20.05	8.43	471	13.22	7.17
Home equity loans and lines of credit	746	19.35	8.31	661	18.55	7.82
Other	46	1.19	0.75	39	1.09	0.83
Total allocated allowance	3,810	98.83	100.00	3,276	91.94	100.00
Unallocated allowance	45	1.17		287	8.06	
Total allowance for loan losses	$ 3,855	100.00%	100.00%	$ 3,563	100.00%	100.00%

We use the accrual method of accounting for all performing loans. The accrual of interest income is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. When a loan is placed on nonaccrual status, unpaid interest previously credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectibility of principal. Generally, residential and consumer loans are restored to accrual status when the obligation is brought current in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest is no longer in doubt. Commercial loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest no longer is in doubt.

In our collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on nonaccrual status, it will be subject to transfer to the real estate owned (REO) portfolio (properties acquired by or in lieu of foreclosure), upon which our loan servicing department will pursue the sale of the real estate. Prior to this transfer, the loan balance will be reduced, if necessary, to reflect its current market value less estimated costs to sell. Write downs of REO that occur after the initial transfer from the loan portfolio and costs of holding the property are recorded as other operating expenses, except for significant improvements which are capitalized to the extent that the carrying value does not exceed estimated net realizable value.

Fair values for determining the value of collateral are estimated from various sources, such as real estate appraisals, financial statements and from any other reliable sources of available information. For those loans deemed to be impaired, collateral value is reduced for the estimated costs to sell. Reductions of collateral value are based on historical loss experience, current market data, and any other source of reliable information specific to the collateral.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

Securities Activities

Our securities investment policy is established by our Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy. Our investment policy is reviewed annually by our ALCO/Investment management committee. All policy changes recommended by this management committee must be approved by the Board of Directors. The Committee is comprised of the Chief Executive Officer, Chief Financial Officer, Controller, Lending Services Division Manager, Retail Services Division Manager and the Marketing Services Manager. Authority to make investments under the approved guidelines is delegated by the Committee to appropriate officers. While general investment strategies are developed and authorized by the ALCO/Investment management committee, the execution of specific actions rests with the Chief Financial Officer.

The approved investment officers are authorized to execute investment transactions up to $5.0 million per transaction without the prior approval of the ALCO/Investment management committee and within the scope of the established investment policy. These officers are also authorized to execute investment transactions between $5.0 million and $10.0 million with the additional approval from the Chief Executive Officer. Each transaction in excess of $10.0 million must receive prior approval of the ALCO/Investment Committee.

Our current investment policy generally permits investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in the FHLBank Pittsburgh (federal agency securities) and, to a much lesser extent, other equity securities. Securities in these categories are classified as investment securities for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and GNMA as well as commercial paper, corporate debt and municipal securities. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk.

Generally accepted accounting principles require that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available-for-sale are reported at fair value, while securities held to maturity are reported at amortized cost.

Mortgage-Backed Securities. We purchase mortgage-backed securities in order to generate positive interest rate spreads with minimal administrative expense, lower credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and Government National Mortgage Association (GNMA), and increased liquidity. We invest primarily in mortgage-backed securities issued or sponsored by Fannie Mae, Freddie Mac, and GNMA. At September 30, 2009, our mortgage-backed securities portfolio had a fair value of $195.2 million, consisting of Freddie Mac, Fannie Mae and GNMA mortgage-backed securities.

Mortgage-backed securities are created by pooling mortgages and issuing a security collateralized by the pool of mortgages with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although most of our mortgage-backed securities are collateralized by single-family mortgages. The issuers of such securities (generally U.S. government agencies and U.S. government sponsored enterprises, including Fannie Mae, Freddie Mac and GNMA) pool and resell the participation interests in the form of securities to investors, such as ESSA Bank & Trust, and guarantee the payment of principal and interest to these investors. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby affecting the net yield on such securities. We review prepayment estimates for our mortgage-backed securities at the time of purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates, and to determine the yield and estimated maturity of the mortgage-backed securities portfolio. Periodic reviews of current prepayment speeds are performed in order to ascertain whether prepayment estimates require modification that would cause amortization or accretion adjustments.

Equity Securities. At September 30, 2009, our equity securities were minimal.

In addition, we hold FHLBank Pittsburgh common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLBank Pittsburgh advance program. There is no market for the common stock.

The aggregate fair value of our FHLBank Pittsburgh common stock as of September 30, 2009 was $20.7 million based on its par value. No unrealized gains or losses have been recorded because we have determined that the par value of the common stock represents its fair value. We owned shares of FHLBank Pittsburgh common stock at September 30, 2009 with a par value that was $2.7 million more than we were required to own to maintain our membership in the Federal Home Loan Bank System and to be eligible to obtain advances. We are required to purchase additional stock as our outstanding advances increase. Any excess stock we own was redeemed monthly by the FHLBank Pittsburgh. On December 23, 2008, the FHLBank Pittsburgh notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice.

We review equity and debt securities with significant declines in fair value on a periodic basis to determine whether they should be considered temporarily or other than temporarily impaired. If a decline in the fair value of a security is determined to be other than temporary, we are required to reduce the carrying value of the security to its fair value and record a non-cash, credit related impairment charge in the amount of the decline, net of tax effect, against our current income.

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Our investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the United States government, and debt obligations of a State or political subdivision.

Our policy is to recognize an other-than-temporary impairment of equity securities where the fair value has been significantly below cost for four consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before its anticipated recovery in market value, declines in value below cost are not assumed to be other than temporary. We review our position quarterly and concluded that at September 30, 2009, declines included in the table below represent temporary declines due to interest rate change, and we do not intend to sell those securities and it more likely than not that we will not have to sell those securities before their anticipated recovery in market value. However, during the year ended September 30, 2009, the Company recognized a loss of $68,000 on equity securities that it deemed, through analysis of the security, to be other than a temporary loss. This loss was related to Fannie Mae perpetual preferred stock that the Company owns. Fannie Mae was placed into conservatorship by the U.S. Government on September 7, 2008.

The following table sets forth the composition of our securities portfolio (excluding FHLBank Pittsburgh common stock) at the dates indicated.

	At September 30,					
	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(Dollars in thousands)			
Investment securities available for sale:						
U.S. Government agency obligations	$ 21,458	$ 21,746	$ 48,887	$ 48,891	$ 82,297	$ 82,392
Obligations of state and political subdivisions	7,168	7,483	7,171	7,146	7,172	7,332
Mortgage-backed securities	182,448	188,264	148,199	147,945	114,840	114,613
Total debt securities	211,074	217,493	204,257	203,982	204,309	204,337
Equity securities	12	73	79	96	882	930
Total investment securities available-for-sale	$ 211,086	$ 217,566	$ 204,336	$ 204,078	$ 205,191	$ 205,267
Investment securities held-to-maturity:						
U.S. Government agency obligations	$	$	$ 2,000	$ 2,023	$ 4,731	$ 4,734
Mortgage-backed securities	6,709	6,923	9,857	9,901	12,399	12,142
Total securities held to maturity	$ 6,709	$ 6,923	$ 11,857	$ 11,924	$ 17,130	$ 16,876

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at September 30, 2009 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Investment securities available for sale:											
U.S. Government agency obligations	$ 503	4.62%	$ 20,955	3.38%	$	0.00%	$	0.00%	$ 21,458	$ 21,746	3.41%
Obligations of state and political subdivisions		0.00%		0.00%	996	4.00%	6,172	4.73%	7,168	7,483	4.63%
Mortgage-backed securities	824	4.33%	224	5.12%	26,124	4.21%	155,276	5.00%	182,448	188,264	4.88%
Total debt securities	$ 1,327	4.44%	$ 21,179	3.40%	$ 27,120	4.20%	$ 161,448	4.99%	$ 211,074	$ 217,493	4.73%
Equity securities	12	0.00%		0.00%		0.00%		0.00%	12	73	0.00%
Total investment securities available for-sale	$ 1,339	4.40%	$ 21,179	3.40%	$ 27,120	4.20%	$ 161,448	4.99%	$ 211,086	$ 217,566	4.72%
Investment securities held-to-maturity:											
Mortgage-backed securities	$ 1,580	4.53%	$ 1,085	4.50%	$ 2,346	4.72%	$ 1,698	3.89%	$ 6,709	$ 6,923	4.43%
Total securities held to maturity	$ 1,580	4.53%	$ 1,085	4.50%	$ 2,346	4.72%	$ 1,698	3.89%	$ 6,709	$ 6,923	4.43%

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Sources of Funds

General. Deposits, borrowings, repayments and prepayments of loans and securities, proceeds from maturing securities and cash flows from operations are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, NOW accounts, checking accounts, money market accounts, club accounts, certificates of deposit and IRAs and other qualified plan accounts. We provide commercial checking accounts for businesses.

At September 30, 2009, our deposits totaled $408.9 million. Interest-bearing NOW, savings and club and money market deposits totaled $230.2 million at September 30, 2009. At September 30, 2009, we had a total of $153.2 million in certificates of deposit. Noninterest-bearing demand deposits totaled $25.4 million. Although we have a significant portion of our deposits in shorter-term certificates of deposit, we monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely on our favorable locations, customer service and competitive pricing to attract and retain these deposits. While we accept certificates of deposit in excess of $100,000 for which we may provide preferential rates, we generally do not solicit such deposits as they are more difficult to retain than core deposits. At September 30, 2009, we had a total of $21.9 million of brokered certificates of deposits, an increase of $11.0 million from the prior fiscal year end. Our brokered certificates of deposits range from one- to five-year terms, and are purchased only through pre-approved brokers.

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	For the Years Ended September 30,								
	2009			2008			2007		
	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid
Deposit type:									
Noninterest bearing demand accounts	$ 24,711	6.31%	%	$ 24,211	6.57%	%	$ 34,934	8.49%	%
Interest bearing NOW	54,262	13.86	0.08	55,073	14.91	0.07	60,826	14.79	0.07
Money market	94,835	24.21	1.68	58,034	15.72	2.90	35,351	8.60	3.12
Savings and club	63,500	16.21	0.43	62,982	17.07				