Waterstone Financial, Inc.
Form 10-Q
May 03, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

T Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-36271

WATERSTONE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	90-1026709
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11200 W. Plank Court Wauwatosa, Wisconsin	53226
(Address of principal executive offices)	(Zip Code)

(414) 761-1000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes T No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes T No

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

Large accelerated filer Accelerated filer T Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No T

The number of shares outstanding of the issuer's common stock, $0.01 par value per share, was 27,982,035 at May 2, 2019.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 Par Value	WSBF	The NASDAQ Stock Market, LLC

WATERSTONE FINANCIAL, INC.

10-Q INDEX

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) March 31, 2019	December 31, 2018
	(Dollars In Thousands, except share and per share data)	
Assets		
Cash	$77,381	$48,234
Federal funds sold	17,905	25,100
Interest-earning deposits in other financial institutions and other short term investments	9,547	12,767
Cash and cash equivalents	104,833	86,101
Securities available for sale (at fair value)	184,224	185,720
Loans held for sale (at fair value)	123,011	141,616
Loans receivable	1,379,866	1,379,148
Less: Allowance for loan losses	12,561	13,249
Loans receivable, net	1,367,305	1,365,899
Office properties and equipment, net	24,215	24,524
Federal Home Loan Bank stock (at cost)	19,350	19,350
Cash surrender value of life insurance	67,894	67,550
Real estate owned, net	1,649	2,152
Prepaid expenses and other assets	36,184	22,469
Total assets	$1,928,665	$1,915,381
Liabilities and Shareholders’ Equity		
Liabilities:		
Demand deposits	$128,470	$139,111
Money market and savings deposits	175,380	163,511
Time deposits	733,491	735,873
Total deposits	1,037,341	1,038,495
Borrowings	448,451	435,046
Advance payments by borrowers for taxes	11,409	4,371
Other liabilities	46,996	37,790
Total liabilities	1,544,197	1,515,702
Shareholders’ equity:		
Preferred stock (par value $.01 per share)		
Authorized - 50,000,000 shares in 2019 and in 2018, no shares issued	-	-
Common stock (par value $.01 per share)		
Authorized - 100,000,000 shares in 2019 and in 2018		
Issued - 28,004,135 in 2019 and 28,463,239 in 2018		
Outstanding - 28,004,135 in 2019 and 28,463,239 in 2018	280	285
Additional paid-in capital	331,128	330,327

Retained earnings	177,303	187,153
Unearned ESOP shares	(17,507)	(17,804)
Accumulated other comprehensive loss, net of taxes	(851)	(2,361)
Cost of shares repurchased (7,653,488 shares at March 31, 2019 and 7,171,537 shares at December 31, 2018)	(105,885)	(97,921)
Total shareholders’ equity	384,468	399,679
Total liabilities and shareholders’ equity	$1,928,665	$1,915,381

See accompanying notes to unaudited consolidated financial statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended March 31,	
	2019	2018
	(In Thousands, except per share amounts)	
Interest income:		
Loans	$17,104	$15,458
Mortgage-related securities	759	638
Debt securities, federal funds sold and short-term investments	1,309	867
Total interest income	19,172	16,963
Interest expense:		
Deposits	3,990	2,314
Borrowings	2,246	1,508
Total interest expense	6,236	3,822
Net interest income	12,936	13,141
Provision for loan losses	(680)	(880)
Net interest income after provision for loan losses	13,616	14,021
Noninterest income:		
Service charges on loans and deposits	379	399
Increase in cash surrender value of life insurance	344	328
Mortgage banking income	23,359	24,187
Other	175	269
Total noninterest income	24,257	25,183
Noninterest expenses:		
Compensation, payroll taxes, and other employee benefits	20,639	20,983
Occupancy, office furniture, and equipment	2,776	2,639
Advertising	958	860
Data processing	769	625
Communications	328	382
Professional fees	695	700
Real estate owned	32	317
Loan processing expense	805	988
Other	2,347	2,653
Total noninterest expenses	29,349	30,147
Income before income taxes	8,524	9,057
Income tax expense	1,982	2,104
Net income	$6,542	$6,953
Income per share:		
Basic	$0.25	$0.25
Diluted	$0.24	$0.25
Weighted average shares outstanding:		
Basic	26,499	27,509
Diluted	26,720	27,802

See accompanying notes to unaudited consolidated financial statements.

WATERSONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,	
	2019	2018
	(In Thousands)	
Net income	$6,542	$6,953
Other comprehensive income (loss), net of tax:		
Net unrealized holding gain (loss) on available for sale securities:		
Net unrealized holding gain (loss) arising during the period, net of tax (expense) benefit of $(565) and $812 respectively	1,510	(2,159)
Reclassification adjustment for net deferred tax liability revaluation	-	5
Total other comprehensive income (loss)	1,510	(2,154)
Comprehensive income	$8,052	$4,799

See accompanying notes to unaudited consolidated financial statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Cost of Shares Repurchased	Total Shareholders' Equity
	(In Thousands, except per share amounts)							
Balances at December 31, 2017	29,501	$ $295	$ 326,655	$ 183,358	$ (18,991)	$ (477)	$ (78,736)	$ 412,104
Comprehensive income:								
Net income	-	-	-	6,953	-	-	-	6,953
Other comprehensive loss	-	-	-	-	-	(2,154)	-	(2,154)
Total comprehensive income								4,799
Reclassification for net deferred tax liability revaluation	-	-	-	(5)	-	-	-	(5)
ESOP shares committed to be released to Plan participants	-	-	159	-	297	-	-	456
Cash dividend, $0.62 per share	-	-	-	(17,143)	-	-	-	(17,143)
Stock compensation activity, net of tax	40	-	494	-	-	-	-	494
Stock compensation expense	-	-	440	-	-	-	-	440
Purchase of common stock returned to authorized but unissued	(217)	(2)	-	-	-	-	(3,724)	(3,726)
Balances at March 31, 2018	29,324	$ 293	$ 327,748	$ 173,163	$ (18,694)	$ (2,631)	$ (82,460)	$ 397,419
Balances at December 31, 2018	28,463	$ $285	$ 330,327	$ 187,153	$ (17,804)	$ (2,361)	$ (97,921)	$ 399,679

Comprehensive income:								
Net income	-	-	-	6,542	-	-	-	6,542
Other comprehensive income	-	-	-	-	-	1,510	-	1,510
Total comprehensive income								8,052
ESOP shares committed to be released to Plan participants	-	-	140	-	297	-	-	437
Cash dividend, $0.62 per share	-	-	-	(16,392)	-	-	-	(16,392)
Stock based compensation activity	23	-	292	-	-	-	-	292
Stock compensation expense	-	-	369	-	-	-	-	369
Purchase of common stock returned to authorized but unissued	(482)	(5)	-	-	-	-	(7,964)	(7,969)
Balances at March 31, 2019	28,004	$ 280	$ 331,128	$ 177,303	$ (17,507)	$ (851)	$ (105,885)	$ 384,468

See accompanying notes to unaudited consolidated financial statements.

WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2019	2018
	(In Thousands)	
Operating activities:		
Net income	$6,542	$6,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(680)	(880)
Provision for depreciation	608	558
Deferred taxes	1,187	(305)
Stock based compensation	369	440
Net amortization of premium/discount on debt and mortgage related securities	69	148
Amortization of unearned ESOP shares	437	456
Amortization and impairment of mortgage servicing rights	67	49
Gain on sale of loans held for sale	(23,551)	(20,684)
Loans originated for sale	(491,239)	(489,155)
Proceeds on sales of loans originated for sale	533,395	532,097
Increase in accrued interest receivable	(357)	(273)
Increase in cash surrender value of life insurance	(344)	(328)
Increase in accrued interest on deposits and borrowings	33	18
Increase in other liabilities	(3,399)	(2,166)
Decrease (increase) in prepaid tax expense	122	(783)
Net (gain) loss related to real estate owned	(12)	201
Other	(5,483)	(6,549)
Net cash provided by operating activities	17,764	19,797
Investing activities:		
Net increase in loans receivable	(756)	(23,103)
Net change in FHLB stock	-	(1,800)
Purchases of:		
Mortgage related securities	(2,745)	-
Premises and equipment, net	(330)	(221)
Proceeds from:		
Principal repayments on mortgage-related securities	5,997	7,245
Maturities of debt securities	250	2,365
Sales of real estate owned	528	1,197
Net cash provided by (used in) investing activities	2,944	(14,317)
Financing activities:		
Net (decrease) increase in deposits	(1,154)	6,844
Net change in short term borrowings	13,405	(16,920)
Repayment of long term debt	-	65,000
Proceeds from long term debt	-	-
Cash paid for advance payments by borrowers for taxes	(3,922)	(5,184)
Cash dividends on common stock	(2,628)	(17,188)
Purchase of common stock returned to authorized but unissued	(7,969)	(3,726)

Proceeds from stock option exercises	292	494
Net cash (used in) provided by financing activities	(1,976)	29,320
Increase in cash and cash equivalents	18,732	34,800
Cash and cash equivalents at beginning of period	86,101	48,607
Cash and cash equivalents at end of period	$104,833	$83,407
Supplemental information:		
Cash paid or credited during the period for:		
Income tax payments	$1,238	$2,384
Interest payments	6,203	3,804
Noncash activities:		
Loans receivable transferred to real estate owned	30	238
Dividends declared but not paid in other liabilities	17,562	3,850

See Accompanying Notes to Unaudited Consolidated Financial Statements.

Note 1 — Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of Waterstone Financial, Inc. (the "Company") and the Company's subsidiaries.

WaterStone Bank SSB (the "Bank") is a community bank that has served the banking needs of its customers since 1921. WaterStone Bank also has an active mortgage banking subsidiary, Waterstone Mortgage Corporation.

WaterStone Bank conducts its community banking business from 11 banking offices located in Milwaukee, Washington and Waukesha Counties, Wisconsin, as well as a loan production office in Minneapolis, Minnesota. WaterStone Bank's principal lending activity is originating one- to four-family, multi-family residential real estate, and commercial real estate loans for retention in its portfolio. WaterStone Bank also offers home equity loans and lines of credit, construction and land loans, and commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. Our deposit offerings include: certificates of deposit, money market savings accounts, transaction deposit accounts, non-interest bearing demand accounts and individual retirement accounts. Our investment securities portfolio is comprised principally of mortgage-backed securities, government-sponsored enterprise bonds and municipal obligations.

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates single-family residential real estate loans for sale into the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes a line of credit with another financial institution as needed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information, Rule 10-01 of Regulation S-X and the instructions to Form 10-Q. The financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company for the periods presented.

The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the Company's December 31, 2018 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or for any other period.

The preparation of the unaudited consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the allowance for loan losses, deferred income taxes and real estate owned. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or shareholders' equity.

Impact of Recent Accounting Pronouncements

Accounting Standards Codification ("ASC") Topic 606 "Revenue from Contracts with Customers." Authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" amended prior guidance to require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and to provide clarification on identifying performance obligations and licensing implementation guidance. The Company's revenue is comprised of interest and non-interest revenue. The guidance does not apply to revenue associated with financial instruments, including loans and securities. The Company completed its overall assessment of revenue streams and related contracts affected by the guidance, including asset management fees, deposit related fees, and other non-interest related fees. The Company adopted ASC 606 as of January 1, 2018 with no impact on total shareholders' equity or net income.

Revenue Recognition

The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASC 606. The following is a discussion of revenues within the scope of the new revenue guidance:

Debit and credit card interchange fee income - Card processing fees consist of interchange fees from consumer debit and credit card networks and other card related services. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.
Service charges on deposit accounts - Revenue from service charges on deposit accounts is earned through deposit-related services; as well as overdraft, non-sufficient funds, account management and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.
Service charges on loan accounts - Revenue from loan accounts consists primarily of fees earned on prepayment penalties. Revenue is recognized for these services at a point in time for transactional related services and fees.

ASC Topic 825 "Financial Instruments." Authoritative accounting guidance under ASC Topic 825, "Financial Instruments" amended prior guidance to require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected the fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The Company adopted ASC 825 as of January 1, 2018 with no material impact on the Company's statements of income or financial condition.

ASC Topic 842 "Leases." Authoritative accounting guidance under ASC Topic 842, "Leases" amended prior guidance to require lessees to recognize the assets and liabilities arising from all leases on the balance sheet. The authoritative guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. In addition, the qualifications for a sale and leaseback transaction have been amended. The authoritative guidance also requires qualitative and quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company used a prospective approach. The Company adopted ASC 842 as of January 1, 2019 with no impact on statement of income. See the impact on the financial condition discussed in Note 16.

ASC Topic 326 "Financial Instruments - Credit Losses." Authoritative accounting guidance under ASC Topic 326, "Financial Instruments - Credit Losses" amended the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The authoritative guidance also requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses). In addition, the credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. The authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is evaluating the guidance and its impact on the Company's statements of income and financial condition.

ASC Topic 310 "Receivables - Nonrefundable Fees and Other Costs." Authoritative accounting guidance under ASC Topic 310, "Receivables - Nonrefundable Fees and Other Costs" amends prior guidance by shortening the amortization period for certain callable debt securities held at a premium requiring the premium to be amortized to the earliest call date. The Company adopted ASC 310 as of January 1, 2019 with no material impact on the Company's statements of operations or financial condition.

Note 2— Securities Available for Sale

The amortized cost and fair values of the Company's investment in securities available for sale follow:

	March 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$39,062	$ 149	$ (267)	$38,944
Collateralized mortgage obligations:				
Government sponsored enterprise issued	75,716	532	(664)	75,584
Mortgage-related securities	114,778	681	(931)	114,528
Municipal securities	54,921	1,311	(16)	56,216
Other debt securities	15,002	-	(1,522)	13,480
Debt securities	69,923	1,311	(1,538)	69,696
	$184,701	$ 1,992	$ (2,469)	$184,224

	December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$42,105	$ 91	$ (565)	$41,631
Collateralized mortgage obligations:				
Government sponsored enterprise issued	75,923	243	(1,211)	74,955
Mortgage-related securities	118,028	334	(1,776)	116,586
Municipal securities	55,242	825	(119)	55,948
Other debt securities	15,002	-	(1,816)	13,186
Debt securities	70,244	825	(1,935)	69,134
	$188,272	$ 1,159	$ (3,711)	$185,720

The Company's mortgage-backed securities and collateralized mortgage obligations issued by government sponsored enterprises are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. At March 31, 2019, $1.7 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities. At December 31, 2018, $1.8 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities.

The amortized cost and fair values of investment securities by contractual maturity at March 31, 2019 are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Debt and other securities		
Due within one year	$9,095	$9,088

Due after one year through five years	21,068	21,235
Due after five years through ten years	29,146	30,165
Due after ten years	10,614	9,208
Mortgage-related securities	114,778	114,528
	$184,701	$184,224

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	March 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$-	$ -	$29,148	$ (267)	$29,148	$ (267)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	-	-	45,586	(664)	45,586	(664)
Municipal securities	-	-	5,606	(16)	5,606	(16)
Other debt securities	-	-	13,480	(1,522)	13,480	(1,522)
	$-	$ -	$93,820	$ (2,469)	$93,820	$ (2,469)

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$3,036	$ (9)	$33,029	$ (556)	$36,065	$ (565)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	3,079	(13)	47,279	(1,198)	50,358	(1,211)
Municipal securities	7,595	(17)	11,272	(102)	18,867	(119)
Other debt securities	-	-	13,186	(1,816)	13,186	(1,816)
	$13,710	$ (39)	$104,766	$ (3,672)	$118,476	$ (3,711)

The Company reviews the investment securities portfolio on a quarterly basis to monitor its exposure to other-than-temporary impairment. In evaluating whether a security's decline in market value is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, the financial condition of the issuer and the underlying obligors, quality of credit enhancements, volatility of the fair value of the security, the expected recovery period of the security and ratings agency evaluations. In addition, the Company may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral.

The following table presents the change in other-than-temporary credit related impairment charges on securities available for sale for which a portion of the other-than-temporary impairments related to other factors was recognized in other comprehensive loss.

	(In Thousands)	
Credit-related impairments on securities as of December 31, 2017	$	94
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized		-
Credit-related impairments on securities as of December 31, 2018		94
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized		-
Credit-related impairments on securities as of March 31, 2019	$	94

As of March 31, 2019, the Company held one municipal security that had previously been deemed to be other-than-temporarily impaired. The security was issued by a tax incremental district in a municipality located in Wisconsin. During the year ended December 31, 2012, the Company received audited financial statements with respect to the municipal issuer that called into question the ability of the underlying taxing district that issued the security to operate as a going concern. During the year ended December 31, 2012, the Company's analysis of this security resulted in $77,000 in credit losses charged to earnings with respect to this municipal security. An additional $17,000 credit loss was charged to earnings during the year ended December 31, 2014 with respect to this security as a sale occurred at a discounted price. As of March 31, 2019, this security had an amortized cost of $116,000 and total life-to-date impairment of $94,000.

As of March 31, 2019, the Company had 41 mortgage-backed securities, 38 government sponsored enterprise issued securities, 16 municipal bond securities, and two corporate debt securities which had been in an unrealized loss position for twelve months or longer and represents a loss of 2.6% of the aggregate amortized cost. These securities were determined not to be other-than-temporarily impaired as of March 31, 2019. The Company has determined that the decline in fair value of these securities is primarily attributable to an increase in market interest rates compared to the stated rates on these securities and is not attributable to credit deterioration. As the Company does not intend to sell nor is it more likely than not that it will be required to sell these securities before recovery of the amortized cost basis, these securities are not considered other-than-temporarily impaired.

The unrealized losses for the other debt security with an unrealized loss greater than 12 months is due to the current slope of the yield curve. The security currently earns a fixed interest rate but transitions in the future to a floating rate that is indexed to the 10 year Treasury interest rate. The Company does not intend to sell nor does it believe that it will be required to sell the security before recovery of their amortized cost basis.

Deterioration of general economic market conditions could result in the recognition of future other than temporary impairment losses within the investment portfolio and such amounts could be material to our consolidated financial statements.

During the three months ended March 31, 2019 and March 31, 2018, there were no sales of securities.

Note 3 - Loans Receivable

Loans receivable at March 31, 2019 and December 31, 2018 are summarized as follows:

	March 31, 2019	December 31, 2018
	(In Thousands)	
Mortgage loans:		
Residential real estate:		
One- to four-family	$481,807	$489,979
Multi-family	595,467	597,087
Home equity	19,379	19,956
Construction and land	24,074	13,361
Commercial real estate	225,580	225,522
Consumer	577	433
Commercial loans	32,982	32,810
	$1,379,866	$1,379,148

The Company provides several types of loans to its customers, including residential, construction, commercial and consumer loans. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to one borrower or to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. While the Company's credit risks are geographically concentrated in the Milwaukee metropolitan area, there are no concentrations with individual or groups of related borrowers. While the real estate collateralizing these loans is primarily residential in nature, it ranges from owner-occupied single family homes to large apartment complexes.

Qualifying loans receivable totaling $1.09 billion and $1.01 billion at March 31, 2019 and December 31, 2018, respectively, are pledged as collateral against $430.0 million in outstanding Federal Home Loan Bank of Chicago ("FHLB") advances under a blanket security agreement at both March 31, 2019 and December 31, 2018.

Certain of the Company's executive officers, directors, employees, and their related interests have loans with the Bank. As of March 31, 2019 and December 31, 2018, loans aggregating approximately $4.7 million and $5.3 million, respectively, were outstanding to such parties. None of these loans were past due or considered impaired as of March 31, 2019 or December 31, 2018.

As of March 31, 2019 and December 31, 2018, there were no loans 90 or more days past due and still accruing interest.

An analysis of past due loans receivable as of March 31, 2019 and December 31, 2018 follows:

	As of March 31, 2019					
	1-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or Greater	Total Past Due	Current (3)	Total Loans
	(In Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	$1,624	$ -	$3,825	$5,449	$476,358	$481,807
Multi-family	-	-	579	579	594,888	595,467

Home equity	48	-	91	139	19,240	19,379
Construction and land	-	-	-	-	24,074	24,074
Commercial real estate	-	-	114	114	225,466	225,580
Consumer	-	-	-	-	577	577
Commercial loans	-	-	13	13	32,969	32,982
Total	$1,672	$ -	$4,622	$6,294	$1,373,572	$1,379,866

	As of December 31, 2018					
	1-59 Days Past Due [(1)] (In Thousands)	60-89 Days Past Due [(2)]	90 Days or Greater	Total Past Due	Current [(3)]	Total Loans
Mortgage loans:						
Residential real estate:						
One- to four-family	$1,523	$76	$3,834	$5,433	$484,546	$489,979
Multi-family	-	-	937	937	596,150	597,087
Home equity	216	42	111	369	19,587	19,956
Construction and land	-	-	-	-	13,361	13,361
Commercial real estate	39	-	125	164	225,358	225,522
Consumer	29	-	-	29	404	433
Commercial loans	-	-	18	18	32,792	32,810
Total	$1,807	$118	$5,025	$6,950	$1,372,198	$1,379,148

[(1)] Includes $25,000 and $422,000 at March 31, 2019 and December 31, 2018, respectively, which are on non-accrual status.
[(2)] Includes $- and $118,000 at March 31, 2019 and December 31, 2018, respectively, which are on non-accrual status.
[(3)] Includes $2.2 million and $990,000 at March 31, 2019 and December 31, 2018, respectively, which are on non-accrual status.

A summary of the activity for the three months ended March 31, 2019 and 2018 in the allowance for loan losses follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Three months ended March 31, 2019								
Balance at beginning of period	$5,742	$ 4,153	$ 325	$ 400	$ 2,126	$ 20	$ 483	$13,249
Provision (credit) for loan losses	(550)	174	(47)	(47)	(122)	(13)	(75)	(680)
Charge-offs	(24)	-	(8)	-	-	-	-	(32)
Recoveries	13	4	6	-	1	-	-	24
Balance at end of period	$5,181	$ 4,331	$ 276	$ 353	$ 2,005	$ 7	$ 408	$12,561

Three months ended March 31, 2018								
Balance at beginning of period	$5,794	$4,431	$356	$949	$1,881	$10	$656	$14,077
Provision (credit) for loan losses	58	(514)	(19)	(247)	25	(1)	(182)	(880)
Charge-offs	(60)	-	-	-	-	-	-	(60)
Recoveries	32	13	7	-	1	-	-	53
Balance at end of period	$5,824	$3,930	$344	$702	$1,907	$9	$474	$13,190

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of March 31, 2019 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$74	$83	$31	$ -	$ 121	$ -	$ -	$309
Allowance related to loans collectively evaluated for impairment	5,107	4,248	245	353	1,884	7	408	12,252
Balance at end of period	$5,181	$4,331	$276	$ 353	$ 2,005	$ 7	$ 408	$12,561
Loans individually evaluated for impairment	$7,951	$1,283	$222	$ -	$ 2,855	$ -	$ 13	$12,324
Loans collectively evaluated for impairment	473,855	594,185	19,157	24,074	222,725	577	32,969	1,367,542
Total gross loans	$481,807	$595,467	$19,379	$ 24,074	$ 225,580	$ 577	$ 32,982	$1,379,866

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of December 31, 2018 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$73	$-	$46	$ -	$ 67	$ -	$ -	$186
Allowance related to loans collectively evaluated for impairment	5,669	4,153	279	400	2,059	20	483	13,063
Balance at end of period	$5,742	$4,153	$325	$ 400	$ 2,126	$ 20	$ 483	$13,249
Loans individually evaluated for impairment	$7,642	$1,309	$246	$ -	$ 2,885	$ -	$ 18	$12,100
Loans collectively evaluated for impairment	482,337	595,778	19,710	13,361	222,637	433	32,792	1,367,048
Total gross loans	$489,979	$597,087	$19,956	$ 13,361	$ 225,522	$ 433	$ 32,810	$1,379,148

The following table presents information relating to the Company's internal risk ratings of its loans receivable as of March 31, 2019 and December 31, 2018:

	One to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
At March 31, 2019								
Substandard	$7,951	$ 1,283	$222	$ -	$ 660	$ -	$ 892	$11,008
Watch	3,928	488	450	-	4,100	-	614	9,580
Pass	469,928	593,696	18,707	24,074	220,820	577	31,476	1,359,278
	$481,807	$ 595,467	$19,379	$ 24,074	$ 225,580	$ 577	$ 32,982	$1,379,866
At December 31, 2018								
Substandard	$7,799	$ 1,309	$246	$ -	$ 678	$ -	$ 889	$10,921
Watch	4,662	491	468	-	4,343	-	906	10,870
Pass	477,518	595,287	19,242	13,361	220,501	433	31,015	1,357,357
	$489,979	$ 597,087	$19,956	$ 13,361	$ 225,522	$ 433	$ 32,810	$1,379,148

Factors that are important to managing overall credit quality include sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early identification of potential problems, an allowance for loan losses, and sound non-accrual and charge-off policies. Our underwriting policies require an officers' loan committee review and approval of all loans in excess of $500,000. A member of the credit department, independent of the loan originator, performs a loan review for all loans. Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we maintain a loan review system under which our credit management personnel review non-owner occupied one- to four-family, multi-family, construction and land, and commercial real estate that individually, or as part of an overall borrower relationship exceed $1.0 million in potential exposure and review commercial loans that individually, or as part of an overall borrower relationship exceed $200,000 in potential exposure. Loans meeting these criteria are reviewed on an annual basis, or more frequently, if the loan renewal is less than one year. With respect to this review process, management has determined that pass loans include loans that exhibit acceptable financial statements, cash flow and leverage. Watch loans have potential weaknesses that deserve management's attention, and if left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit. Substandard loans are considered inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. These loans generally have a well-defined weakness that may jeopardize liquidation of the debt and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Finally, a loan is considered to be impaired when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management has determined that all non-accrual loans and loans modified under troubled debt restructurings meet the definition of an impaired loan.

The Company's procedures dictate that an updated valuation must be obtained with respect to underlying collateral at the time a loan is deemed impaired. Updated valuations may also be obtained upon transfer from loans receivable to real estate owned based upon the age of the prior appraisal, changes in market conditions or known changes to the physical condition of the property.

Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. The adjustment factor is based upon the Company's actual experience with respect to sales of real estate owned over the prior two years. In situations in which we are placing reliance on an appraisal that is more than one year old, an additional adjustment factor is applied to account for downward market pressure since the date of appraisal. The additional adjustment factor is based upon relevant sales data available for our general operating market as well as company-specific historical net realizable values as compared to the most recent appraisal prior to disposition.

With respect to multi-family income-producing real estate, appraisals are reviewed and estimated collateral values are adjusted by updating significant appraisal assumptions to reflect current real estate market conditions. Significant assumptions reviewed and updated include the capitalization rate, rental income and operating expenses. These adjusted assumptions are based upon recent appraisals received on similar properties as well as on actual experience related to real estate owned and currently under Company management.

The following tables present data on impaired loans at March 31, 2019 and December 31, 2018.

	As of March 31, 2019			
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs
	(In Thousands)			
Total Impaired with Reserve				
One- to four-family	$ 353	$ 353	$ 74	$ -
Multi-family	347	347	83	-
Home equity	85	85	31	-
Construction and land	-	-	-	-
Commercial real estate	2,471	2,880	121	409
Consumer	-	-	-	-
Commercial	-	-	-	-
	3,256	3,665	309	409
Total Impaired with no Reserve				
One- to four-family	7,598	8,538	-	940
Multi-family	936	1,767	-	831
Home equity	137	137	-	-
Construction and land	-	-	-	-
Commercial real estate	384	384	-	-
Consumer	-	-	-	-
Commercial	13	13	-	-
	9,068	10,839	-	1,771
Total Impaired				
One- to four-family	7,951	8,891	74	940
Multi-family	1,283	2,114	83	831
Home equity	222	222	31	-
Construction and land	-	-	-	-
Commercial real estate	2,855	3,264	121	409
Consumer	-	-	-	-
Commercial	13	13	-	-
	$ 12,324	$ 14,504	$ 309	$ 2,180

	As of December 31, 2018			
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs
	(In Thousands)			
Total Impaired with Reserve				
One- to four-family	$462	$462	$ 73	$ -
Multi-family	-	-	-	-
Home equity	107	107	46	-
Construction and land	-	-	-	-
Commercial real estate	2,493	2,902	67	409
Consumer	-	-	-	-
Commercial	-	-	-	-
	3,062	3,471	186	409
Total Impaired with no Reserve				
One- to four-family	7,180	8,120	-	940
Multi-family	1,309	2,142	-	833
Home equity	139	139	-	-
Construction and land	-	-	-	-
Commercial real estate	392	392	-	-
Consumer	-	-	-	-
Commercial	18	18	-	-
	9,038	10,811	-	1,773
Total Impaired				
One- to four-family	7,642	8,582	73	940
Multi-family	1,309	2,142	-	833
Home equity	246	246	46	-
Construction and land	-	-	-	-
Commercial real estate	2,885	3,294	67	409
Consumer	-	-	-	-
Commercial	18	18	-	-
	$12,100	$14,282	$ 186	$ 2,182

Three months ended March 31, 2019	Average Recorded Investment	Interest Paid
	(In Thousands)	
Total Impaired with Reserve		
One- to four-family	$354	6
Multi-family	349	10
Home equity	86	2
Construction and land	-	-
Commercial real estate	2,481	26
Consumer	-	-
Commercial	-	-
	3,270	44
Total Impaired with no Reserve		
One- to four-family	7,652	114
Multi-family	945	20
Home equity	138	1
Construction and land	-	-
Commercial real estate	388	4
Consumer	-	-
Commercial	16	-
	9,139	139
Total Impaired		
One- to four-family	8,006	120
Multi-family	1,294	30
Home equity	224	3
Construction and land	-	-
Commercial real estate	2,869	30
Consumer	-	-
Commercial	16	