Magyar Bancorp, Inc.
Form 10QSB/A
February 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2006

Commission File Number **000-51726**

MAGYAR BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-4154978 (I.R.S. Employer Identification Number)
400 Somerset Street New Brunswick, New Jersey (Address of principal executive offices)	08901 (Zip Code)

Issuer's telephone number, including area code (732) 342-7600

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ý NO o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ý

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

Class	Outstanding at February 8, 2007
Common Stock, $0.01 Par Value	5,923,742

Transitional Small Business Disclosure Format YES o NO ý

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Company's Quarterly Report on Form 10-QSB for the period ended December 31, 2006, is to re-file Item 2, Part I - Management's Discussion and Analysis of Financial Condition and Results of Operations. The average balance sheet and related information previously filed reflected actual, not average, balances. The average balance sheet information and related information is included in this Amendment No. 1.

These changes had no effect on the Company's consolidated statements of income, consolidated balance sheets, consolidated statement of changes in stockholders' equity, consolidated statements of cash flows, or the notes thereto.

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

When used in this filing and in future filings by Magyar Bancorp, Inc. with the Securities and Exchange Commission, in the Company’s press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, “anticipate,” “would be,” “will allow,” “intends to,” “wi likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “projected,” or similar expressions are intende identify “forward looking statements.” Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in Magyar Bancorp, Inc.’s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Magyar Bancorp, Inc.’s market area, changes in the position of banking regulators on the adequacy of our allowance for loan losses, and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Magyar Bancorp, Inc. wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect Magyar Bancorp, Inc.’s financial performance and could cause Magyar Bancorp, Inc.’s actual results for future periods to differ materially from those anticipated or projected.

Magyar Bancorp, Inc. does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policy upon which our financial condition and results of operations depend, and which involves the most complex subjective decisions or assessments, is the allowance for loan losses.

The allowance for loan losses is the amount estimated by management as necessary to cover credit losses in the loan portfolio both probable and reasonably estimable at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as a problem loan through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan and discounted cash flows. Specific allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly more than the allowances we have established which could have a material negative effect on our financial results.

Comparison of Financial Condition at December 31, 2006 and September 30, 2006

Total assets increased $14.9 million, or 3.4%, to $449.1 million at December 31, 2006 from $434.2 million at September 30, 2006, represented by significant growth in net loans receivable, partially offset by a decrease in securities available-for-sale and securities held-to-maturity.

Net loans receivable increased $17.3 million, or 5.0%, to $365.2 million at December 31, 2006 from $348.0 million at September 30, 2006. The increase in loans receivable for the three-month period was slightly offset by $200,000 in sales of one-to-four family residential mortgage loans and provisions for loan loss of $167,000. During the three months ended December 31, 2006, commercial business loans led the increase in net loans receivable with growth of $6.7 million, or 27.2%, to $31.2 million from $24.5 million at September 30, 2006. Construction loans increased $5.3 million, or 5.8%, and home equity lines of credit increased $3.5 million, or 32.1%, during the period to $95.6 million and $14.3 million, respectively.

At December 31, 2006, the significant loan categories in terms of the percent of total loans were 38.7% in one-to-four family residential mortgage loans, 25.9% in construction loans and 18.7% in commercial real estate loans. At December 31, 2005 these categories in terms of the percent of total loans were 43.3% in one-to-four family residential mortgage loans, 22.8% in construction loans and 19.6% in commercial real estate loans. Throughout 2007 we expect to continue with our strategy of diversifying the Company’s balance sheet with higher concentrations in commercial and construction loans.

Total non-performing loans decreased by $94,000 to $7.3 million at December 31, 2006 from $7.4 million at September 30, 2006. The ratio of non-performing loans to total loans receivable was

1.98% at December 31, 2006 compared with 2.10% at September 30, 2006. The allowance for loan losses was increased $167,000 to $4.1 million or 55.6% of non-performing loans at December 31, 2006 compared with $3.9 million or 52.6% of non-performing loans at September 30, 2006. The allowance for loan losses was 1.1% of gross loans outstanding at both December 31, 2006 and September 30, 2006.

The Bank’s interest in loans on the Dwek Properties and Sugar Maple Estates (reported in the Company’s Current Report on Form 8-K dated June 27, 2006) was $745,000 and $4.2 million, respectively, at December 31, 2006. Payments on both loans were current at December 31, 2006. An “as-is condition” contract of sale in the amount of $1.46 million was approved by the superior court for the sale of property securing the Dwek Properties loan. The sale and closing are currently scheduled to occur in February 2007. The Sugar Maple Estates property is currently listed for sale through the court appointed sale agent.

In October 2006, Kara Homes, Inc. (“Kara Homes”), one of our largest construction loan borrowers, filed for Chapter 11 bankruptcy (reported in our Current Report on Form 8-K dated October 10, 2006). Kara Homes' lending relationship with us consists of four construction loans with a total outstanding balance of $7.6 million. Two of the four loans were participated with other banks, limiting our total lending relationship with Kara Homes to $5.1 million. The loans were designated non-accrual at September 30, 2006 and remained on that status at December 31, 2006. On January 8, 2007 the Bankruptcy Court approved a motion to begin a bidding process through the Bankruptcy Court for all four Kara Homes properties. An auction is expected to be held in the Bankruptcy Court during the Company’s second quarter to sell the four projects. The Bank has made an initial offer on each of the four projects to proceed with a Bankruptcy Code Section 363 sale of the property to the Bank (free and clear of all liens, claims and encumbrances with the exception of real estate taxes.)

Although management believes that the Bank’s position in the Dwek Properties, Sugar Maple Estates, and Kara Homes, Inc. loans are well collateralized, there can be no assurance that losses will not occur or that significant additional expenses will not be incurred in the process of the resolution of the loans.

Securities available-for-sale decreased $0.9 million, or 4.6%, to $17.3 million at December 31, 2006 from $18.2 million at September 30, 2006. The decrease was the result of $142,000 in sales of a money market mutual fund and $730,000 in principal amortization. In addition, securities held-to-maturity decreased $1.1 million, or 4.6%, to $22.8 million at December 31, 2006 from $23.9 million at September 30, 2006, resulting from principal amortization. The decrease in the available-for-sale and held-to-maturity securities reflected the deployment of investment proceeds into new higher-yielding construction and commercial loans.

Total deposits increased $16.7 million, or 5.1%, to $342.3 million at December 31, 2006. The increase was primarily the result of money market accounts, which increased $9.2 million, or 16.5%, to $65.3 million at December 31, 2006 from $56.1 million at September 30, 2006, and certificate of deposit accounts, which increased $6.6 million, or 4.4%, to $156.4 million at December 31, 2006 from $149.8 million at September 30, 2006. Other significant changes in total deposits over the three-month period included an increase in NOW accounts of $2.1 million, or 6.8%, to $32.6 million and a decrease in savings accounts of $3.4 million, or 7.9%, to $39.7 million.

Borrowings from the Federal Home Loan Bank of New York decreased $1.9 million, or 3.9% to $51.1 million at December 31, 2006 from $53.0 million at September 30, 2006. Proceeds from the growth in deposits described above were used to pay down short-term advances over the three-month period.

Stockholders' equity increased $350,000, or 0.7%, to $48.6 million at December 31, 2006 from $48.2 million at September 30, 2006. The increase was attributable to net income during the period of $272,000, the release of shares from the ESOP totaling $73,000 and a decrease in accumulated other comprehensive loss of $5,000. The other comprehensive losses due to unrealized losses on investment securities available-for-sale related to increases in interest rates since the investment securities were purchased. Management has concluded that none of the securities have impairments that are considered other than temporary.

Average Balance Sheets for the Three Months Ended December 31, 2006 and 2005

The table on the following page presents certain information regarding Magyar Bancorp, Inc.'s financial condition and net interest income for the three months ended December 31, 2006 and 2005. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

	Three Months Ended December 31,					
	2006			2005		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits	$ 233	$ 3	5.11%	$ 1,190	$ 8	2.67%
Loans receivable, net	357,138	6,517	7.24%	277,681	4,575	6.54%
Securities						
Taxable	39,301	416	4.20%	50,269	500	3.95%
Tax-exempt	2,194	30	5.42%	147	2	5.40%
FHLB of NY stock	2,756	44	6.33%	2,389	33	5.48%
Total interest-earning assets	401,622	7,010	6.92%	331,676	5,118	6.12%
Noninterest-earning assets	40,748			37,934		
Total assets	$ 442,370			$ 369,610		
Interest-bearing liabilities:						
Savings accounts [1]	$ 40,828	113	1.10%	$ 58,061	153	1.05%
NOW accounts [2]	93,592	824	3.49%	59,821	241	1.60%
Time deposits [3]	181,674	2,007	4.38%	155,682	1,312	3.34%
Total interest-bearing deposits	316,094	2,944	3.70%	273,564	1,706	2.47%
Federal Home Loan Bank borrowings	50,490	644	5.06%	46,322	514	4.40%
Loan payable	-	-		2,497	50	7.94%
Total interest-bearing liabilities	366,584	3,588	3.88%	322,383	2,270	2.79%
Noninterest-bearing liabilities	27,252			22,380		
Total liabilities	393,836			344,763		