BankFinancial CORP
Form 10-Q
October 28, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended September 30, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to
Commission File Number 0-51331

BANKFINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

Maryland	75-3199276
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

15W060 North Frontage Road, Burr Ridge, Illinois 60527
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (800) 894-6900
Not Applicable
(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
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 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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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.
Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date. At October 26, 2015, there were 20,501,966 shares of Common Stock, $0.01 par value, outstanding.

BANKFINANCIAL CORPORATION
Form 10-Q
September 30, 2015
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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	September 30, 2015	December 31, 2014
Assets		
Cash and due from other financial institutions	$8,809	$9,693
Interest-bearing deposits in other financial institutions	52,661	49,888
Cash and cash equivalents	61,470	59,581
Securities, at fair value	104,242	121,174
Loans receivable, net of allowance for loan losses: September 30, 2015, $10,081 and December 31, 2014, $11,990	1,162,298	1,172,356
Other real estate owned, net	4,809	6,358
Stock in Federal Home Loan Bank, at cost	6,257	6,257
Premises and equipment, net	33,063	34,286
Accrued interest receivable	4,000	3,926
Core deposit intangible	1,441	1,855
Bank owned life insurance	22,335	22,193
Deferred taxes	27,733	31,643
Other assets	3,775	5,781
Total assets	$1,431,423	$1,465,410
Liabilities		
Deposits		
Noninterest-bearing	$233,192	$134,129
Interest-bearing	948,342	1,077,584
Total deposits	1,181,534	1,211,713
Borrowings	18,048	12,921
Advance payments by borrowers for taxes and insurance	7,755	11,489
Accrued interest payable and other liabilities	11,012	13,166
Total liabilities	1,218,349	1,249,289
Stockholders' equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 20,501,966 shares issued at September 30, 2015 and 21,101,966 shares issued at December 31, 2014	205	211
Additional paid-in capital	186,992	193,845
Retained earnings	34,815	31,584
Unearned Employee Stock Ownership Plan shares	(9,544)	(10,276)
Accumulated other comprehensive income	606	757
Total stockholders' equity	213,074	216,121
Total liabilities and stockholders' equity	$1,431,423	$1,465,410

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data) - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	$ 11,792	$ 11,983	$ 35,451	$ 35,767
Securities	267	283	851	866
Other	88	102	249	303
Total interest income	12,147	12,368	36,551	36,936
Interest expense				
Deposits	695	744	2,068	2,327
Borrowings	4	2	8	5
Total interest expense	699	746	2,076	2,332
Net interest income	11,448	11,622	34,475	34,604
Provision for (recovery of) loan losses	(956)	(1,413)	(2,168)	20
Net interest income after provision for (recovery of) loan losses	12,404	13,035	36,643	34,584
Noninterest income				
Deposit service charges and fees	562	527	1,493	1,438
Other fee income	502	563	1,638	1,677
Insurance commissions and annuities income	68	106	217	279
Gain on sale of loans, net	37	39	92	107
Loss on sale of securities (includes $7 accumulated other comprehensive income reclassifications for unrealized net losses on available for sale securities for the nine months ended September 30, 2014)	—	—	—	(7)
Gain (loss) on disposition of premises and equipment, net	—	—	(1)	5
Loan servicing fees	85	102	271	310
Amortization and impairment of servicing assets	(50)	(32)	(107)	(112)
Earnings on bank owned life insurance	48	57	142	182
Trust	172	171	529	505
Other	285	215	660	556
	1,709	1,748	4,934	4,940
Noninterest expense				
Compensation and benefits	5,329	5,492	16,188	17,046
Office occupancy and equipment	1,537	1,687	4,902	5,227
Advertising and public relations	212	272	783	741
Information technology	686	674	1,982	2,004
Supplies, telephone, and postage	393	394	1,189	1,169
Amortization of intangibles	136	143	414	435
Nonperforming asset management	244	418	442	619
Operations of other real estate owned	334	494	780	1,160
FDIC insurance premiums	202	208	699	1,157
Other	1,159	1,375	3,397	3,952
	10,232	11,157	30,776	33,510
Income before income taxes	3,881	3,626	10,801	6,014
Income tax expense	1,532	36	4,242	78

Net income	$ 2,349	$ 3,590	$ 6,559	$ 5,936
Basic earnings per common share	$ 0.12	$ 0.17	$ 0.33	$ 0.29
Diluted earnings per common share	$ 0.12	$ 0.17	$ 0.33	$ 0.29
Weighted average common shares outstanding	19,725,707	20,218,951	19,999,089	20,154,912
Diluted weighted average common shares outstanding	19,731,302	20,235,407	20,004,694	20,170,964

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands) - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 2,349	$ 3,590	$ 6,559	$ 5,936
Unrealized holding loss arising during the period	(34)	(26)	(244)	(52)
Tax effect	13	—	93	—
Unrealized holding loss arising during the period, net of tax	(21)	(26)	(151)	(52)
Reclassification adjustment for losses included in net income	—	—	—	7
Other comprehensive loss	(21)	(26)	(151)	(45)
Comprehensive income	$ 2,328	$ 3,564	$ 6,408	$ 5,891

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income (Loss)	Total
Balance at January 1, 2014	$211	$193,594	$(7,342)	$(11,255)	$ 419	$175,627
Net income	—	—	5,936	—	—	5,936
Other comprehensive loss, net of tax	—	—	—	—	(45)	(45)
Nonvested stock awards-stock-based compensation expense	—	52	—	—	—	52
Cash dividends declared on common stock ($0.05 per share)	—	—	(1,055)	—	—	(1,055)
ESOP shares earned	—	28	—	733	—	761
Balance at September 30, 2014	$211	$193,674	$(2,461)	$(10,522)	$ 374	$181,276
Balance at January 1, 2015	$211	$193,845	$31,584	$(10,276)	$ 757	$216,121
Net income	—	—	6,559	—	—	6,559
Other comprehensive loss, net of tax	—	—	—	—	(151)	(151)
Repurchase and retirement of common stock (600,000 shares)	(6)	(7,382)	—	—	—	(7,388)
Nonvested stock awards-stock-based compensation expense, net of tax	—	351	—	—	—	351
Cash dividends declared on common stock ($0.16 per share)	—	—	(3,328)	—	—	(3,328)
ESOP shares earned	—	178	—	732	—	910
Balance at September 30, 2015	$205	$186,992	$34,815	$(9,544)	$ 606	$213,074

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities		
Net income	$6,559	$5,936
Adjustments to reconcile to net income to net cash from operating activities		
Provision for (recovery of) loan losses	(2,168)	20
ESOP shares earned	910	761
Stock–based compensation expense	351	52
Depreciation and amortization	2,754	2,864
Amortization of premiums and discounts on securities and loans	(214)	(325)
Amortization of core deposit intangible	414	435
Amortization and impairment of servicing assets	107	112
Net change in net deferred loan origination costs	(384)	(99)
Net gain on sale of other real estate owned	(91)	(40)
Net gain on sale of loans	(92)	(107)
Net loss on sale of securities	—	7
Net loss (gain) on disposition of premises and equipment	1	(5)
Loans originated for sale	(3,593)	(3,492)
Proceeds from sale of loans	3,685	3,599
Other real estate owned valuation adjustments	467	392
Net change in:		
Accrued interest receivable	(74)	343
Earnings on bank owned life insurance	(142)	(182)
Other assets	5,906	3,638
Accrued interest payable and other liabilities	(2,154)	(13)
Net cash from operating activities	12,242	13,896
Cash flows from investing activities		
Securities		
Proceeds from maturities	53,410	43,924
Proceeds from principal repayments	5,888	5,259
Proceeds from sales of securities	—	3,663
Purchases of securities	(42,643)	(57,023)
Loans receivable		
Loan participations sold	3,350	—
Principal payments on loans receivable	333,644	322,271
Originated for investment	(326,624)	(363,909)
Purchase of Federal Home Loan Bank of Chicago stock	—	(189)
Proceeds from sale of other real estate owned	2,487	3,790
Purchase of premises and equipment, net	(363)	(362)
Net cash from (used in) investing activities	29,149	(42,576)

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Nine Months Ended September 30, 2015	2014
Cash flows from financing activities		
Net change in deposits	$(30,179)	$(34,406)
Net change in borrowings	5,127	(221)
Net change in advance payments by borrowers for taxes and insurance	(3,734)	(3,670)
Stock repurchased	(7,388)	—
Cash dividends paid on common stock	(3,328)	(1,055)
Net cash used in financing activities	(39,502)	(39,352)
Net change in cash and cash equivalents	1,889	(68,032)
Beginning cash and cash equivalents	59,581	160,957
Ending cash and cash equivalents	$61,470	$92,925
Supplemental disclosures of cash flow information:		
Interest paid	$2,113	$2,344
Income taxes paid	262	114
Loans transferred to other real estate owned	1,314	3,836

See accompanying notes to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the “Bank”).
Principles of Consolidation: The interim unaudited consolidated financial statements include the accounts of and transactions of BankFinancial Corporation, the Bank, and the Bank’s wholly-owned subsidiaries, Financial Assurance Services, Inc. and BF Asset Recovery Corporation (collectively, “the Company”), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three- and nine-month periods ended September 30, 2015 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2015. Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.
Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.
Reclassifications: Certain reclassifications have been made in the prior period’s financial statements to conform them to the current period’s presentation.
These unaudited consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.
Recent Accounting Pronouncements
In January 2014, the FASB amended existing guidance to clarify when a creditor should derecognize a loan receivable and recognize a collateral asset. An in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this standard did not have a material impact on the Company’s results of operation or financial position.
In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should 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. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update will become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

In June 2014, the FASB amended existing guidance related to repurchase-to-maturity transactions, repurchase financings, and disclosures (ASU 2014-11, Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures). These amendments align the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be

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(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. These amendments require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. These amendments also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. These amendments are effective for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The adoption of this standard did not have a material effect on the Company's operating results or financial condition, but an additional disclosure has been added to the financial statements.

NOTE 2 - EARNINGS PER SHARE

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned ESOP shares and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income available to common stockholders	$2,349	$3,590	$6,559	$5,936
Average common shares outstanding	20,501,966	21,101,966	20,803,065	21,101,966
Less:				
Unearned ESOP shares	(768,327)	(866,193)	(792,551)	(926,705)
Unvested restricted stock shares	(7,932)	(16,822)	(11,425)	(20,349)
Weighted average common shares outstanding	19,725,707	20,218,951	19,999,089	20,154,912
Add - Net effect of dilutive stock options and unvested restricted stock	5,595	16,456	5,605	16,052
Diluted weighted average common shares outstanding	19,731,302	20,235,407	20,004,694	20,170,964
Basic earnings per common share	$0.12	$0.17	$0.33	$0.29
Diluted earnings per common share	$0.12	$0.17	$0.33	$0.29

Stock options for 1,215,697 shares of common stock were not considered in computing diluted earnings per share for the period ended September 30, 2015 because they were antidilutive.

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NOTE 3 - SECURITIES

The fair value of securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income are shown below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Certificates of deposit	$76,194	$—	$—	$76,194
Equity mutual fund	500	12	—	512
Mortgage-backed securities - residential	18,944	957	(25)	19,876
Collateralized mortgage obligations - residential	7,596	49	(10)	7,635
SBA-guaranteed loan participation certificates	25	—	—	25
	$103,259	$1,018	$(35)	$104,242
December 31, 2014				
Certificates of deposit	$86,049	$—	$—	$86,049
Equity mutual fund	500	9	—	509
Mortgage-backed securities - residential	23,433	1,218	(40)	24,611
Collateralized mortgage obligations - residential	9,936	53	(13)	9,976
SBA-guaranteed loan participation certificates	29	—	—	29
	$119,947	$1,280	$(53)	$121,174

Mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the U.S. government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at September 30, 2015 and December 31, 2014.

The amortized cost and fair values of securities by contractual maturity are shown below. Securities not due at a single maturity date, if any, are shown separately. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2015	
	Amortized Cost	Fair Value
Due in one year or less	$76,194	$76,194
Equity mutual fund	500	512
Mortgage-backed securities - residential	18,944	19,876
Collateralized mortgage obligations - residential	7,596	7,635
SBA-guaranteed loan participation certificates	25	25
	$103,259	$104,242

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(Table amounts in thousands, except share and per share data)

NOTE 3 - SECURITIES (continued)

Sales of securities were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds	$—	$—	$—	$3,663
Gross gains	—	—	—	—
Gross losses	—	—	—	7

Securities with unrealized losses not recognized in income are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2015						
Mortgage-backed securities - residential	$—	$—	$1,743	$(25)	$1,743	$(25)
Collateralized mortgage obligations - residential	—	—	1,405	(10)	1,405	(10)
	$—	$—	$3,148	$(35)	$3,148	$(35)
December 31, 2014						
Mortgage-backed securities - residential	$—	$—	$2,126	$(40)	$2,126	$(40)
Collateralized mortgage obligations - residential	—	—	1,847	(13)	1,847	(13)
	$—	$—	$3,973	$(53)	$3,973	$(53)

The Company evaluates marketable investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under current accounting guidance, which generally provides that if a marketable security is in an unrealized loss position, whether due to general market conditions or industry or issuer-specific factors, the holder of the securities must assess whether the impairment is other-than-temporary.

Certain residential mortgage-backed securities and certain collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at September 30, 2015, but the unrealized losses were not considered significant under the Company’s impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.

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(Table amounts in thousands, except share and per share data)

NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

	September 30, 2015	December 31, 2014
One-to-four family residential real estate	$164,124	$180,337
Multi-family mortgage	478,057	480,349
Nonresidential real estate	223,528	234,500
Construction and land	1,322	1,885
Commercial loans	80,216	66,882
Commercial leases	221,622	217,143
Consumer	1,927	2,051
	1,170,796	1,183,147
Net deferred loan origination costs	1,583	1,199
Allowance for loan losses	(10,081)	(11,990)
Loans, net	$1,162,298	$1,172,356

The following tables present the balance in the allowance for loan losses and loans receivable by portfolio segment and based on impairment method:

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
September 30, 2015						
One-to-four family residential real estate	$—	$1,601	$1,601	$3,353	$160,771	$164,124
Multi-family mortgage	3	3,885	3,888	3,487	474,570	478,057
Nonresidential real estate	66	2,629	2,695	4,097	219,431	223,528
Construction and land	—	74	74	—	1,322	1,322
Commercial loans	17	772	789	75	80,141	80,216
Commercial leases	—	1,006	1,006	—	221,622	221,622
Consumer	—	28	28	—	1,927	1,927
	$86	$9,995	$10,081	$11,012	$1,159,784	1,170,796
Net deferred loan origination costs						1,583
Allowance for loan losses						(10,081)
Loans, net						$1,162,298

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)
NOTE 4 - LOANS RECEIVABLE (continued)

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2014						
One-to-four family residential real estate	$8	$2,140	$2,148	$4,174	$176,163	$180,337
Multi-family mortgage	226	4,979	5,205	5,282	475,067	480,349
Nonresidential real estate	236	2,704	2,940	4,690	229,810	234,500
Construction and land	—	80	80	—	1,885	1,885
Commercial loans	—	554	554	76	66,806	66,882
Commercial leases	—	1,009	1,009	—	217,143	217,143
Consumer	—	54	54	—	2,051	2,051
	$470	$11,520	$11,990	$14,222	$1,168,925	1,183,147
Net deferred loan origination costs						1,199
Allowance for loan losses						(11,990)
Loans, net						$1,172,356

BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)
NOTE 4 - LOANS RECEIVABLE (continued)

Activity in the allowance for loan losses is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$10,810	$14,452	$11,990	$14,154
Loans charged off:				
One-to-four family residential real estate	(125)	(298)	(327)	(644)
Multi-family mortgage	(9)	(97)	(189)	(781)
Nonresidential real estate	(26)	(695)	(289)	(1,461)
Construction and land	—	—	—	(1)
Commercial loans	—	(78)	(98)	(100)
Commercial leases	—	(8)	—	(8)
Consumer	(3)	—	(11)	(10)
	(163)	(1,176)	(914)	(3,005)
Recoveries:				
One-to-four family residential real estate	16	26	295	134
Multi-family mortgage	169	11	177	31
Nonresidential real estate	24	116	49	400
Construction and land	38	29	44	287
Commercial loans	143	1,005	606	1,027
Commercial leases	—	—	1	—
Consumer	—	1	1	3
	390	1,188	1,173	1,882
Net recoveries (charge-offs)	227	12	259	(1,123)
Provision for (recovery of) loan losses	(956)	(1,413)	(2,168)	20
Ending balance	$10,081	$13,051	$10,081	$13,051

Purchased Impaired Loans

As a result of its acquisition of Downers Grove National Bank, the Company holds purchased loans for which there was evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected as of the date of the acquisition. The Company held one purchased impaired loan at September 30, 2015 and December 31, 2014, with a recorded investment value of $52,000.

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NOTE 4 - LOANS RECEIVABLE (continued)

Impaired loans

Several of the following disclosures are presented by "recorded investment," which the FASB defines as "the amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment." The following represents the components of recorded investment:

Loan principal balance
Less unapplied payments
Plus negative unapplied balance
Less escrow balance
Plus negative escrow balance
Plus unamortized net deferred loan costs
Less unamortized net deferred loan fees
Plus unamortized premium
Less unamortized discount
Less previous charge-offs
Plus recorded accrued interest
Less reserve for uncollected interest
= Recorded investment

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

					Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
September 30, 2015								
With no related allowance recorded:								
One-to-four family residential real estate	$3,543	$ 2,830	$ 785	$ —	$2,742	$ 6	$2,674	$ 19
One-to-four family residential real estate - non-owner occupied	567	520	57	—	704	6	1,126	31
Multi-family mortgage	2,763	2,739	—	—	1,970	19	1,856	69
Wholesale commercial lending	513	508	—	—	510	9	515	26
Nonresidential real estate	2,907	2,682	212	—	2,741	24	2,999	97
	10,293	9,279	1,054	—	8,667	64	9,170	242
With an allowance recorded:								
Multi-family mortgage	238	233	—	3	587	—	1,483	—
Nonresidential real estate	1,481	1,389	67	66	1,106	—	2,114	14
Commercial loans - secured	76	75	—	17	19	—	8	—
	1,795	1,697	67	86	1,712	—	3,605	14
Total	$12,088	$ 10,976	$ 1,121	$ 86	$10,379	$ 64	$12,775	$ 256

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NOTE 4 - LOANS RECEIVABLE (continued)

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2014						
With no related allowance recorded:						
One-to-four family residential real estate	$3,246	$ 2,656	$ 649	$ —	$ 2,777	$ 44
One-to-four family residential real estate - non-owner occupied	1,481	1,425	57	—	745	76
Multi-family mortgage	3,174	2,593	481	—	3,419	120
Wholesale commercial lending	519	513	—	—	401	—
Nonresidential real estate	2,118	2,068	6	—	4,175	72
Commercial loans - secured	76	76	—	—	93	3
	10,614	9,331	1,193	—	11,610	315
With an allowance recorded:						
One-to-four family residential real estate - non-owner occupied	115	78	37	8	202	—
Multi-family mortgage	2,713	2,131	624	226	2,343	48
Nonresidential real estate	2,950	2,605	326	236	1,718	67
	5,778	4,814	987	470	4,263	115
Total	$16,392	$ 14,145	$ 2,180	$ 470	$ 15,873	$ 430

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NOTE 4 - LOANS RECEIVABLE (continued)

Nonaccrual Loans
The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans:

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
September 30, 2015			
One-to-four family residential real estate	$3,139	$2,539	$—
One-to-four family residential real estate – non owner occupied	359	413	—
Multi-family mortgage	1,482	1,399	—
Nonresidential real estate	2,575	2,263	—
Commercial loans – secured	76	75	—
	$7,631	$6,689	$—
December 31, 2014			
One-to-four family residential real estate	$4,793	$4,210	$—
One-to-four family residential real estate – non owner occupied	291	198	—
Multi-family mortgage	5,638	4,481	—
Nonresidential real estate	4,023	3,245	—
Commercial loans – secured	76	76	—
Consumer	3	3	—
	$14,824	$12,213	$—

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.
The Company’s reserve for uncollected loan interest was $275,000 and $464,000 at September 30, 2015 and December 31, 2014, respectively. When a loan is on non-accrual status and the ultimate collectability of the total principal of the loan is in doubt, all payments are applied to principal under the cost recovery method. Alternatively, when a loan is on non-accrual status but there is doubt concerning only the ultimate collectability of interest, contractual interest is credited to interest income only when received, under the cash basis method pursuant to the provisions of FASB ASC 310–10, as applicable. In all cases, the average balances are calculated based on the month–end balances of the financing receivables within the period reported pursuant to the provisions of FASB ASC 310–10, as applicable.

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NOTE 4 - LOANS RECEIVABLE (continued)

Past Due Loans

The following tables present the aging of the recorded investment of loans at September 30, 2015 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	$61	$376	$2,272	$2,709	$117,063	$119,772
One-to-four family residential real estate - non-owner occupied	3	—	413	416	43,895	44,311
Multi-family mortgage	517	178	882	1,577	317,154	318,731
Wholesale commercial lending	—	399	—	399	156,295	156,694
Nonresidential real estate	—	—	2,262	2,262	219,879	222,141
Construction	—	—	—	—	31	31
Land	—	—	—	—	1,289	1,289
Commercial loans:						
Secured	—	—	75	75	22,731	22,806
Unsecured	—	—	—	—	3,217	3,217
Municipal	—	—	—	—	1,610	1,610
Warehouse lines	—	—	—	—	15,406	15,406
Health care	—	—	—	—	20,030	20,030
Aviation	—	—	—	—	1,023	1,023
Other	—	—	—	—	16,425	16,425
Commercial leases:						
Investment rated commercial leases	—	20	—	20	159,008	159,028
Below investment grade	—	—	—	—	7,377	7,377
Non-rated	—	86	—	86	46,341	46,427
Lease pools	—	—	—	—	10,257	10,257
Consumer	—	—	—	—	1,935	1,935
	$581	$1,059	$5,904	$7,544	$1,160,966	$1,168,510

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NOTE 4 - LOANS RECEIVABLE (continued)

The following tables present the aging of the recorded investment of loans at December 31, 2014 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	$1,415	$276	$3,844	$5,535	$126,054	$131,589
One-to-four family residential real estate - non-owner occupied	320	165	198	683	47,350	48,033
Multi-family mortgage	2,314	1,187	3,363	6,864	334,173	341,037
Wholesale commercial lending	—	—	—	—	135,395	135,395
Nonresidential real estate	376	444	3,245	4,065	227,078	231,143
Construction	—	—	—	—	63	63
Land	—	—	—	—	1,814	1,814
Commercial loans:						
Secured	—	—	76	76	11,863	11,939
Unsecured	—	1	—	1	1,884	1,885
Municipal	—	—	—	—	2,243	2,243
Warehouse lines	—	—	—	—	14,362	14,362
Health care	—	—	—	—	24,154	24,154
Aviation	—	—	—	—	1,111	1,111
Other	—	—	—	—	11,339	11,339
Commercial leases:						
Investment rated commercial leases	426	—	—	426	160,830	161,256
Below investment grade	136	—	—	136	11,246	11,382
Non-rated	8	—	—	8	35,672	35,680
Lease pools	—	—	—	—	10,180	10,180
Consumer	18	1	3	22	2,038	2,060
	$5,013	$2,074	$10,729	$17,816	$1,158,849	$1,176,665

Troubled Debt Restructurings
The Company evaluates loan extensions or modifications in accordance with FASB ASC 310–40 with respect to the classification of the loan as a TDR. In general, if the Company grants a loan extension or modification to a borrower for other than an insignificant period of time that includes a below–market interest rate, principal forgiveness, payment forbearance or other concession intended to minimize the economic loss to the Company, the loan extension or loan modification is classified as a TDR. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal then due and payable, management measures any impairment on the restructured loan in the same manner as for impaired loans as noted above.
The Company had $3.0 million of TDRs at September 30, 2015 and December 31, 2014. There were no specific valuation reserves allocated to those loans at September 30, 2015 and $38,000 in specific valuation reserves were allocated at December 31, 2014. The Company had no outstanding commitments to borrowers whose loans were classified as TDRs at either date.

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NOTE 4 - LOANS RECEIVABLE (continued)

The following table presents loans classified as TDRs:

	September 30, 2015	December 31, 2014
One-to-four family residential real estate	$1,657	$1,917
Multi-family mortgage	1,126	510
Troubled debt restructured loans – accrual loans	2,783	2,427
One-to-four family residential real estate	208	230
Multi-family mortgage	—	346
Troubled debt restructured loans – nonaccrual loans	208	576
Total troubled debt restructured loans	$2,991	$3,003

During the three and nine months ending September 30, 2015 and 2014, the terms of certain loans were modified and classified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.
The following tables present TDR activity:

	Three Months Ended September 30,					
	2015			2014		
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment
One-to-four family residential real estate	5	$ 338	$ 211	1	$ 345	$ 345
Commercial loans - secured	—	—	—	1	210	5
Total	5	$ 338	$ 211	2	$ 555	$ 350

	Due to reduction in interest rate	Due to extension of maturity date	Due to permanent reduction in recorded investment	Total
For the Three Months Ended September 30, 2015				
One-to-four family residential real estate	$—	$79	$132	$211
For the Three Months Ended September 30, 2014				
One-to-four family residential real estate	$—	$345	$—	$345
Commercial loans - secured	—	—	5	5
Total	$—	$345	$5	$350

The TDRs described above had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in charge-offs of $127,000 for the three months ended September 30, 2015. The TDRs had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in $205,000 of charge-offs for the three months ended September 30, 2014.

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NOTE 4 - LOANS RECEIVABLE (continued)

	Nine Months Ended September 30, 2015			2014		
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment
One-to-four family residential real estate	6	$ 401	$ 274	4	$ 485	$ 444
Commercial loans - secured	—	—	—	1	210	5
Total	6	$ 401	$ 274	5	$ 695	$ 449

	Due to reduction in interest rate	Due to extension of maturity date	Due to permanent reduction in recorded investment	Total
For the Nine Months Ended September 30, 2015				
One-to-four family residential real estate	$—	$142	$132	$274
For the Nine Months Ended September 30, 2014				
One-to-four family residential real estate	$19	$373	$52	$444
Commercial loans - secured	—	—	5	5
Total	$19	$373	$57	$449

The TDRs described above had no material impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in $127,000 of charge-offs for the nine months ended September 30, 2015. The TDRs decreased interest income by $1,000, resulted in no change to the allowance for loan losses allocated and resulted in charge-offs of $246,000 for the nine months ended September 30, 2014.
The following table presents TDRs for which there was a payment default during the nine months ending September 30, 2015 and 2014 within twelve months following the modification.

	2015		2014	
	Number of loans	Recorded investment	Number of loans	Recorded investment
One-to-four family residential real estate	1	$27	1	$28

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.
The TDRs for which there was a payment default resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs during the nine months ending September 30, 2015 and September 30, 2014.
There were certain other loan modifications during the three and nine months ending September 30, 2015 and 2014 that did not meet the definition of a TDR. These loans had a total recorded investment of $2.6 million and $1.6 million at September 30, 2015 and 2014, respectively. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.
In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.
Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans based on credit risk.

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NOTE 4 - LOANS RECEIVABLE (continued)

This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. A Special Mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans categorized as Substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time. The risk rating guidance published by the Office of the Comptroller of the Currency clarifies that a loan with a well-defined weakness does not have to present a probability of default for the loan to be rated Substandard, and that an individual loan’s loss potential does not have to be distinct for the loan to be rated Substandard.

Nonaccrual. An asset classified as Nonaccrual has all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered “Pass” rated loans.

As of September 30, 2015, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	$117,242	$—	$429	$2,114	$119,785
One-to-four family residential real estate - non-owner occupied	43,705	223	—	411	44,339
Multi-family mortgage	312,554	456	5,741	1,404	320,155
Wholesale commercial lending	157,389	—	513	—	157,902
Nonresidential real estate	197,920	18,065	5,259	2,284	223,528
Construction	31	—	—	—	31
Land	472	—	819	—	1,291
Commercial loans:					
Secured	22,509	—	148	75	22,732
Unsecured	2,651	—	555	—	3,206
Municipal	1,599	—	—	—	1,599
Warehouse lines	16,369	—	—	—	16,369
Health care	19,995	—	—	—	19,995
Aviation	1,021	—	—	—	1,021
Other	15,294	—	—	—	15,294
Commercial leases:					
Investment rated commercial leases	157,893	—	—	—	157,893
Below investment grade	7,336	—	—	—	7,336
Non-rated	46,175	—	—	—	46,175
Lease pools	10,218	—	—	—	10,218
Consumer	1,927	—	—	—	1,927
Total	$1,132,300	$18,744	$13,464	$6,288	$1,170,796

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As of December 31, 2014, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	$126,102	$615	$1,046	$4,228	$131,991
One-to-four family residential real estate - non-owner occupied	46,253	931	964	198	48,346
Multi-family mortgage	336,557	609	3,430	4,515	345,111
Wholesale commercial lending	134,719	—	519	—	135,238
Nonresidential real estate	223,385	1,170	6,698	3,247	234,500
Construction	60	—	—	—	60
Land	1,212	—	613	—	1,825
Commercial loans:					
Secured	11,863	—	7	76	11,946
Unsecured	1,147	40	698	—	1,885
Municipal	2,213	—	—	—	2,213
Warehouse lines	11,296	—	—	—	11,296
Health care	24,127	—	—	—	24,127
Aviation	1,108	—	—	—	1,108
Other	14,307	—	—	—	14,307
Commercial leases:					
Investment rated commercial leases	160,208	—	—	—	160,208
Below investment grade	11,309	—	—	—	11,309
Non-rated	35,473	—	—	—	35,473
Lease pools	10,153	—	—	—	10,153
Consumer	2,048	—	—	3	2,051
Total	$1,153,540	$3,365	$13,975	$12,267	$1,183,147

NOTE 5 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE
Securities sold under agreements to repurchase are shown below.

	September 30, 2015				
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions	$3,048	$—	$—	$—	$3,048
Gross amount of recognized liabilities for repurchase agreements in Statement of Condition					$3,048

	December 31, 2014				
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions	$2,921	$—	$—	$—	$2,921
Gross amount of recognized liabilities for repurchase agreements in Statement of Condition					$2,921

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NOTE 5 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (continued)

Securities sold under agreements to repurchase were secured by mortgage-backed securities with a carrying amount of $6.1 million and $6.8 million at September 30, 2015 and December 31, 2014, respectively. Also included in total borrowings were advances from the Federal Home Loan Bank of Chicago (the "FHLBC") of $15.0 million and $10.0 million at September 30, 2015 and December 31, 2014, respectively.
As the securities' values fluctuate due to market conditions, the Company has no control over the market value. The Company is obligated to promptly transfer additional securities if the market value of the securities fall below the repurchase price, per the agreement.

NOTE 6 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:
Securities: The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security (Level 1). If Level 1 measurement inputs are not available for a marketable equity security, we determine its fair value based on the quoted price of a similar security traded in an active market (Level 2). The fair values of debt securities are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).
Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.
Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for

additional impairment and adjusted accordingly.

Mortgage Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of mortgage servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2).

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NOTE 6 - FAIR VALUE (continued)

The following table sets forth the Company’s financial assets that were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
September 30, 2015				
Securities:				
Certificates of deposit	$—	$76,194	$—	$76,194
Equity mutual fund	512	—	—	512
Mortgage-backed securities – residential	—	19,876	—	19,876
Collateralized mortgage obligations – residential	—	7,635	—	7,635
SBA-guaranteed loan participation certificates	—	25	—	25
	$512	$103,730	$—	$104,242
December 31, 2014				
Securities:				
Certificates of deposit	$—	$86,049	$—	$86,049
Equity mutual fund	509	—	—	509
Mortgage-backed securities - residential	—	24,611	—	24,611
Collateralized mortgage obligations – residential	—	9,976	—	9,976
SBA-guaranteed loan participation certificates	—	29	—	29
	$509	$120,665	$—	$121,174

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NOTE 6 - FAIR VALUE (continued)

The following table sets forth the Company's assets that were measured at fair value on a non-recurring basis:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
September 30, 2015				
Impaired loans:				
Multi-family mortgage	$—	$—	$230	$230
Nonresidential real estate	—	—	1,323	1,323
Commercial loans	—	—	58	58
	$—	$—	$1,611	$1,611
Other real estate owned:				
One-to-four family residential real estate	$—	$—	$42	$42
Multi-family mortgage	—	—	962	962
Nonresidential real estate	—	—	107	107
Land	—	—	749	749
	$—	$—	$1,860	$1,860
Mortgage servicing rights	$—	$297	$—	$297
December 31, 2014				
Impaired loans:				
One-to-four family residential real estate	$—	$—	$70	$70
Multi-family mortgage	—	—	1,905	1,905
Nonresidential real estate	—	—	2,369	2,369
	$—	$—	$4,344	$4,344
Other real estate owned:				
One-to-four family residential real estate	$—	$—	$55	$55
Multi-family mortgage	—	—	1,265	1,265
Nonresidential real estate	—	—	126	126
Land	—	—	753	753
	$—	$—	$2,199	