

GREENE COUNTY BANCORP INC

Form 10-Q

November 08, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT

GREENE COUNTY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Commission file number 0-25165

United States

(State or other jurisdiction of incorporation or organization)

14-1809721

(I.R.S. Employer Identification Number)

302 Main Street, Catskill, New York 12414

(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (518) 943-2600

Check 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 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 and post such files). YES NO

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

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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

As of November 8, 2018, the registrant had 8,537,814 shares of common stock outstanding at \$ 0.10 par value per share.

GREENE COUNTY BANCORP, INC.

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Greene County Bancorp, Inc.
Consolidated Statements of Financial Condition
At September 30, 2018 and June 30, 2018
(Unaudited)
(In thousands, except share and per share amounts)

	September 30, 2018	June 30, 2018
ASSETS		
Total cash and cash equivalents	\$ 35,132	\$ 26,504
Long term certificate of deposit	2,385	2,385
Securities available-for-sale, at fair value	119,600	120,806
Securities held-to-maturity, at amortized cost (fair value \$279,061 at September 30, 2018; \$274,177 at June 30, 2018)	280,774	274,550
Equity securities, at fair value	232	217
Federal Home Loan Bank stock, at cost	4,147	1,545
Loans	736,076	715,641
Allowance for loan losses	(12,308) (12,024)
Unearned origination fees and costs, net	758	814
Net loans receivable	724,526	704,431
Premises and equipment	13,267	13,304
Accrued interest receivable	5,437	5,057
Foreclosed real estate	79	119
Prepaid expenses and other assets	2,294	2,560
Total assets	\$ 1,187,873	\$ 1,151,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 109,358	\$ 102,694
Interest-bearing deposits	893,103	922,540
Total deposits	1,002,461	1,025,234
Borrowings from Federal Home Loan Bank, short-term	58,800	-
Borrowings from Federal Home Loan Bank, long-term	17,150	18,150
Accrued expenses and other liabilities	9,821	11,903
Total liabilities	1,088,232	1,055,287
SHAREHOLDERS' EQUITY		
Preferred stock, Authorized - 1,000,000 shares; Issued - None	-	-
Common stock, par value \$.10 per share; Authorized - 12,000,000 shares; Issued - 8,611,340 shares; Outstanding - 8,537,814 shares at September 30, 2018, and June 30, 2018	861	861
Additional paid-in capital	11,017	11,017
Retained earnings	89,853	86,213
Accumulated other comprehensive loss	(1,813) (1,623)
Treasury stock, at cost 73,526 shares at September 30, 2018, and June 30, 2018	(277) (277)
Total shareholders' equity	99,641	96,191
Total liabilities and shareholders' equity	\$ 1,187,873	\$ 1,151,478

See notes to consolidated financial statements

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Greene County Bancorp, Inc.

Consolidated Statements of Income

For the Three Months Ended September 30, 2018 and 2017

(Unaudited)

(In thousands, except share and per share amounts)

	2018	2017
Interest income:		
Loans	\$8,298	\$7,059
Investment securities - taxable	194	165
Mortgage-backed securities	1,114	817
Investment securities - tax exempt	1,360	1,036
Interest-bearing deposits and federal funds sold	31	12
Total interest income	10,997	9,089
Interest expense:		
Interest on deposits	1,036	809
Interest on borrowings	304	110
Total interest expense	1,340	919
Net interest income	9,657	8,170
Provision for loan losses	354	347
Net interest income after provision for loan losses	9,303	7,823
Noninterest income:		
Service charges on deposit accounts	1,037	851
Debit card fees	640	566
Investment services	115	72
E-commerce fees	37	38
Other operating income	223	213
Total noninterest income	2,052	1,740
Noninterest expense:		
Salaries and employee benefits	3,478	2,882
Occupancy expense	402	356
Equipment and furniture expense	214	113
Service and data processing fees	495	487
Computer software, supplies and support	223	143
Advertising and promotion	120	55
FDIC insurance premiums	127	93
Legal and professional fees	329	231
Other	573	533
Total noninterest expense	5,961	4,893
Income before provision for income taxes	5,394	4,670
Provision for income taxes	1,014	1,198
Net income	\$4,380	\$3,472
Basic earnings per share	\$0.51	\$0.41
Basic average shares outstanding	8,537,814	8,502,734

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Diluted earnings per share	\$0.51	\$0.41
Diluted average shares outstanding	8,537,814	8,531,242
Dividends per share	\$0.1000	\$0.0975

See notes to consolidated financial statements

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Greene County Bancorp, Inc.
 Consolidated Statements of Comprehensive Income
 For the Three Months Ended September 30, 2018 and 2017
 (Unaudited)
 (In thousands)

	2018	2017
Net Income	\$4,380	\$3,472
Other comprehensive income (loss) income:		
Unrealized holding (losses) gains on available-for-sale securities, net of income tax (benefit) expense of (\$27) and \$145, respectively	(76)	235
Total other comprehensive (loss) income, net of taxes	(76)	235
Comprehensive income	\$4,304	\$3,707

See notes to consolidated financial statements.

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Greene County Bancorp, Inc.
 Consolidated Statements of Changes in Shareholders' Equity
 For the Three Months Ended September 30, 2018 and 2017
 (Unaudited)
 (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2017	\$ 861	\$ 10,990	\$ 73,072	\$ (992)	\$ (410)	\$ 83,521
Options exercised		2			4	6
Dividends declared			(379)			(379)
Net income			3,472			3,472
Other comprehensive income, net of taxes				235		235
Balance at September 30, 2017	\$ 861	\$ 10,992	\$ 76,165	\$ (757)	\$ (406)	\$ 86,855

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2018	\$ 861	\$ 11,017	\$ 86,213	\$ (1,623)	\$ (277)	\$ 96,191
Impact of Adopting ASU 2016-01 ⁽¹⁾			114	(114)		-
Dividends declared			(854)			(854)
Net income			4,380			4,380
Other comprehensive loss, net of taxes				(76)		(76)
Balance at September 30, 2018	\$ 861	\$ 11,017	\$ 89,853	\$ (1,813)	\$ (277)	\$ 99,641

⁽¹⁾ See Note 9 Impact of Recent Accounting Pronouncements – cumulative effect of change in measurement of equity securities.

See notes to consolidated financial statements.

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Greene County Bancorp, Inc.
 Consolidated Statements of Cash Flows
 For the Three Months Ended September 30, 2018 and 2017
 (Unaudited)
 (In thousands)

	2018	2017
Cash flows from operating activities:		
Net Income	\$4,380	\$3,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	154	157
Deferred income tax (benefit) expense	(388)	1,214
Net amortization of premiums and discounts	81	213
Net amortization of deferred loan costs and fees	110	134
Provision for loan losses	354	347
Net gain on equity securities	(15)	-
Losses on sale of foreclosed real estate	9	37
Net increase (decrease) in accrued income taxes	426	(647)
Net increase in accrued interest receivable	(380)	(341)
Net decrease in prepaid and other assets	255	175
Net (decrease) increase in other liabilities	(2,082)	1,717
Net cash provided by operating activities	2,904	6,478
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	32,825	17,594
Purchases of securities	(32,921)	(27,125)
Principal payments on securities	1,191	571
Securities held-to-maturity:		
Proceeds from maturities	4,519	4,137
Purchases of securities	(23,918)	(12,050)
Principal payments on securities	13,102	5,851
Net (purchase) redemption of Federal Home Loan Bank Stock	(2,602)	556
Net increase in loans receivable	(20,593)	(14,768)
Proceeds from sale of foreclosed real estate	65	38
Purchases of premises and equipment	(117)	(101)
Net cash used by investing activities	(28,449)	(25,297)
Cash flows from financing activities:		
Net increase (decrease) in short-term advances	58,800	(6,200)
Repayment of long-term FHLB advances	(1,000)	(2,500)
Payment of cash dividends	(854)	(379)
Proceeds from issuance of stock options	-	6
Net (decrease) increase in deposits	(22,773)	58,034
Net cash provided by financing activities	34,173	48,961
Net increase in cash and cash equivalents	8,628	30,142
Cash and cash equivalents at beginning of period	26,504	16,277
Cash and cash equivalents at end of period	\$35,132	\$46,419

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Non-cash investing activities:

Foreclosed loans transferred to foreclosed real estate	\$34	\$28
Cash paid during period for:		
Interest	\$1,332	\$931
Income taxes	\$975	\$630

See notes to consolidated financial statements

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Greene County Bancorp, Inc.

Notes to Consolidated Financial Statements

At and for the Three Months Ended September 30, 2018 and 2017

(1) Basis of Presentation

Within the accompanying unaudited consolidated statement of financial condition, and related notes to the consolidated financial statements, June 30, 2018 data was derived from the audited consolidated financial statements of Greene County Bancorp, Inc. (the “Company”) and its wholly owned subsidiaries, The Bank of Greene County (the “Bank”) and Greene Risk Management, Inc., and the Bank’s wholly owned subsidiaries, Greene County Commercial Bank and Greene Property Holdings, Ltd. The consolidated financial statements at and for the three months ended September 30, 2018 and 2017 are unaudited.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. To the extent that information and notes required by GAAP for complete financial statements are contained in or are consistent with the audited financial statements incorporated by reference to Greene County Bancorp, Inc.’s Annual Report on Form 10-K for the year ended June 30, 2018, such information and notes have not been duplicated herein. In the opinion of management, all adjustments (consisting of only normal recurring items) necessary for a fair presentation of the financial position and results of operations and cash flows at and for the periods presented have been included. Amounts in the prior year’s consolidated financial statements have been reclassified whenever necessary to conform to the current year’s presentation. These reclassifications, if any, had no effect on net income or retained earnings as previously reported. All material inter-company accounts and transactions have been eliminated in the consolidation. The results of operations and other data for the three months ended September 30, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2019. These consolidated financial statements consider events that occurred through the date the consolidated financial statements were issued.

CRITICAL ACCOUNTING POLICIES

Greene County Bancorp, Inc.’s critical accounting policies relate to the allowance for loan losses and the evaluation of securities for other-than-temporary impairment. The allowance for loan losses is based on management’s estimation of an amount that is intended to absorb losses in the existing portfolio. The allowance for loan losses is established through a provision for loan losses based on management’s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans for which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management’s estimate of probable credit losses and other factors that warrant recognition in providing for the allowance of loan losses. However, this evaluation involves a high degree of complexity and requires management to make subjective judgments that often require assumptions or estimates about highly uncertain matters. This critical accounting policy and its application are periodically reviewed with the Audit Committee and the Board of Directors. There have been no significant changes in the application of this critical accounting policy during the three months ended September 30, 2018.

Securities are evaluated for other-than-temporary impairment by performing periodic reviews of individual securities in the investment portfolio. Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security, on which there is an unrealized loss, is impaired on an other-than-temporary basis. The Company considers many factors, including the severity and duration of the impairment; the intent and ability of the Company to hold the equity security for a period of time sufficient for a

recovery in value; recent events specific to the issuer or industry; and for debt securities, the intent to sell the security, the likelihood to be required to sell the security before it recovers the entire amortized cost, external credit ratings and recent downgrades. The Company is required to record other-than-temporary impairment charges through earnings, if it has the intent to sell, or will more likely than not be required to sell an impaired debt security before a recovery of its amortized cost basis. In addition, the Company is required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as the Company has no intent or requirement to sell an impaired security before a recovery of amortized cost basis.

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(2) Nature of Operations

Greene County Bancorp, Inc.'s primary business is the ownership and operation of its subsidiaries, The Bank of Greene County and Greene Risk Management, Inc. The Bank of Greene County has 15 full-service offices, an operations center and lending center located in its market area within the Hudson Valley Region of New York State. The Bank of Greene County is primarily engaged in the business of attracting deposits from the general public in The Bank of Greene County's market area, and investing such deposits, together with other sources of funds, in loans and investment securities. Greene Risk Management, Inc. is a pooled captive insurance company, which provides additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible. The Bank of Greene County also owns and operates two subsidiaries, Greene County Commercial Bank and Greene Property Holdings, Ltd. Greene County Commercial Bank's primary business is to attract deposits from and provide banking services to local municipalities. Greene Property Holdings, Ltd. is a real estate investment trust, which holds mortgages and notes which were originated through and serviced by The Bank of Greene County.

(3) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the assessment of other-than-temporary security impairment.

While management uses available information to recognize losses on loans, future additions to the allowance for loan losses (the "Allowance") may be necessary, based on changes in economic conditions, asset quality or other factors. In addition, various regulatory authorities, as an integral part of their examination process, periodically review the Allowance. Such authorities may require the Company to recognize additions to the Allowance based on their judgments of information available to them at the time of their examination.

Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers many factors including the severity and duration of the impairment; the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and for debt securities, intent to sell the security, whether it is more likely than not we will be required to sell the security before recovery, whether loss is expected, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value through earnings.

(4) Securities

Securities at September 30, 2018 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	\$ 5,539	\$ 2	\$ 45	\$ 5,496
State and political subdivisions	92,149	173	2	92,320
Mortgage-backed securities-residential	3,091	8	114	2,985

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Mortgage-backed securities-multi-family	17,296	50	251	17,095
Corporate debt securities	1,769	-	65	1,704
Total securities available-for-sale	119,844	233	477	119,600
Securities held-to-maturity:				
U.S. government sponsored enterprises	9,247	-	356	8,891
State and political subdivisions	142,647	2,501	827	144,321
Mortgage-backed securities-residential	5,698	41	10	5,729
Mortgage-backed securities-multi-family	120,333	75	3,134	117,274
Corporate debt securities	1,469	7	2	1,474
Other securities	1,380	9	17	1,372
Total securities held-to-maturity	280,774	2,633	4,346	279,061
Total securities	\$ 400,618	\$ 2,866	\$ 4,823	\$ 398,661

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Securities at June 30, 2018 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	\$ 5,543	\$ 18	\$ 30	\$ 5,531
State and political subdivisions	92,052	204	1	92,255
Mortgage-backed securities-residential	3,332	13	98	3,247
Mortgage-backed securities-multi-family	18,249	64	244	18,069
Corporate debt securities	1,771	-	67	1,704
Total securities available-for-sale	120,947	299	440	120,806
Securities held-to-maturity:				
U.S. government sponsored enterprises	9,245	-	278	8,967
State and political subdivisions	136,335	3,091	532	138,894
Mortgage-backed securities-residential	6,472	72	7	6,537
Mortgage-backed securities-multi-family	118,780	123	2,845	116,058
Corporate debt securities	1,466	11	9	1,468
Other securities	2,252	16	15	2,253
Total securities held-to-maturity	274,550	3,313	3,686	274,177
Total securities	\$ 395,497	\$ 3,612	\$ 4,126	\$ 394,983

Greene County Bancorp, Inc.'s current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations issued by these entities. At September 30, 2018, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were held in the securities portfolio. The Company's investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are supported by state aid. Primarily, these investments are issued by municipalities within New York State.

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2018.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
U.S. government sponsored enterprises	\$2,018	\$ 1	1	\$955	\$ 44	1	\$2,973	\$ 45	2
State and political subdivisions	8,928	2	10	-	-	-	8,928	2	10
Mortgage-backed securities-residential	1,382	32	3	886	82	1	2,268	114	4
Mortgage-backed securities-multi-family	2,429	31	2	6,330	220	4	8,759	251	6
Corporate debt securities	1,452	63	6	252	2	1	1,704	65	7
	16,209	129	22	8,423	348	7	24,632	477	29

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Total securities available-for-sale									
Securities held-to-maturity:									
U.S. government sponsored enterprises	3,120	126	1	5,770	230	2	8,890	356	3
State and political subdivisions	44,063	605	221	8,735	222	71	52,798	827	292
Mortgage-backed securities-residential	2,245	10	4	-	-	-	2,245	10	4
Mortgage-backed securities-multi-family	81,835	2,204	37	22,372	930	15	104,207	3,134	52
Corporate debt securities	467	2	1	-	-	-	467	2	1
Other securities	805	15	3	159	2	3	964	17	6
Total securities held-to-maturity	132,535	2,962	267	37,036	1,384	91	169,571	4,346	358
Total securities	\$148,744	\$3,091	289	\$45,459	\$1,732	98	\$194,203	\$4,823	387

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The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
U.S. government sponsored enterprises	\$969	\$ 30	1	\$ -	\$ -	-	\$969	\$ 30	1
State and political subdivisions	2,094	1	4	-	-	-	2,094	1	4
Mortgage-backed securities-residential	2,420	98	3	-	-	-	2,420	98	3
Mortgage-backed securities-multi-family	9,177	244	7	-	-	-	9,177	244	7
Corporate debt securities	1,450	65	6	254	2	1	1,704	67	7
Total securities available-for-sale	16,110	438	21	254	2	1	16,364	440	22
Securities held-to-maturity:									
U.S. government sponsored enterprises	7,018	227	1	1,949	51	1	8,967	278	2
State and political subdivisions	34,743	434	167	4,352	98	34	39,095	532	201
Mortgage-backed securities-residential	1,403	7	3	-	-	-	1,403	7	3
Mortgage-backed securities-multi-family	94,927	2,586	45	6,398	259	3	101,325	2,845	48
Corporate debt securities	457	9	1	-	-	-	457	9	1
Other securities	892	14	1	75	1	1	967	15	2
Total securities held-to-maturity	139,440	3,277	218	12,774	409	39	152,214	3,686	257
Total securities	\$155,550	\$ 3,715	239	\$13,028	\$ 411	40	\$168,578	\$ 4,126	279

When the fair value of a held-to-maturity or available-for-sale security is less than its amortized cost basis, an assessment is made as to whether other-than-temporary impairment (“OTTI”) is present. The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of the security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security before recovery of its amortized cost basis, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. In determining the present value of expected cash flows, the Company discounts the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. In estimating cash flows expected to be collected, the Company uses available information with respect to security prepayment speeds, default rates and severity. In determining whether OTTI has occurred for equity securities, the

Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income/loss ("OCI"). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. Management evaluated securities considering the factors as outlined above, and based on this evaluation the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2018. Management believes that the reasons for the decline in fair value are due to interest rates, widening credit spreads and market illiquidity at the reporting date.

There were no transfers of securities available-for-sale to held-to-maturity during the three months ended September 30, 2018 or 2017. During the three months ended September 30, 2018 and 2017, there were no sales of securities and no gains or losses were recognized. There was no other-than-temporary impairment loss recognized during the three months ended September 30, 2018 and 2017.

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The estimated fair values of debt securities at September 30, 2018, by contractual maturity are shown below. Expected maturities may differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)

Available-for-sale debt securities	Amortized Cost	Fair Value
Within one year	\$ 92,403	\$ 92,572
After one year through five years	4,539	4,541
After five years through ten years	2,515	2,407
After ten years	-	-
Total available-for-sale debt securities	99,457	99,520
Mortgage-backed securities	20,387	20,080
Total available-for-sale securities	119,844	119,600
Held-to-maturity debt securities		
Within one year	26,618	26,707
After one year through five years	64,460	64,834
After five years through ten years	46,008	46,020
After ten years	17,657	18,497
Total held-to-maturity debt securities	154,743	156,058
Mortgage-backed securities	126,031	123,003
Total held-to-maturity securities	280,774	279,061
Total debt securities	\$ 400,618	\$ 398,661

At September 30, 2018 and June 30, 2018, respectively, securities with an aggregate fair value of \$387.1 million and \$383.0 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. At September 30, 2018 and June 30, 2018, securities with an aggregate fair value of \$1.7 million were pledged as collateral for potential borrowings at the Federal Reserve Bank discount window. Greene County Bancorp, Inc. did not participate in any securities lending programs during the quarters ended September 30, 2018 or 2017.

Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is carried at cost. FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. Impairment of this investment is evaluated quarterly and is a matter of judgment that reflects management’s view of the FHLB’s long-term performance, which includes factors such as the following: its operating performance; the severity and duration of declines in the fair value of its net assets related to its capital stock amount; its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance; the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of the FHLB; and its liquidity and funding position. After evaluating these considerations, Greene County Bancorp, Inc. concluded that the par value of its investment in FHLB stock will be recovered and, therefore, no other-than-temporary impairment charge was recorded during the three months ended September 30, 2018 or 2017.

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(5) Loans and Allowance for Loan Losses

Loan segments and classes at September 30, 2018 and June 30, 2018 are summarized as follows:

(In thousands)	September 30, 2018	June 30, 2018
Residential real estate:		
Residential real estate	\$ 262,264	\$ 255,848
Residential construction and land	9,803	9,951
Multi-family	21,076	14,961
Commercial real estate:		
Commercial real estate	289,425	283,935
Commercial construction	38,836	39,366
Consumer loan:		
Home equity	21,744	21,919
Consumer installment	5,217	5,017
Commercial loans	87,711	84,644
Total gross loans	736,076	715,641
Allowance for loan losses	(12,308) (12,024)
Deferred fees and costs	758	814
Loans receivable, net	\$ 724,526	\$ 704,431

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Company's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, The Bank of Greene County provides for the classification of loans considered being of lesser quality. Such ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a full loss reserve and/or charge-off is not warranted. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." Management also maintains a listing of loans designated "Watch." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk.

When The Bank of Greene County classifies problem assets as either Substandard or Doubtful, it generally establishes a specific valuation allowance or "loss reserve" in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular loans. When The Bank of Greene County identifies problem loans as being impaired, it is required to evaluate whether the Bank will be able to collect all amounts due either through repayments or the liquidation of the underlying collateral. If it is determined that impairment exists, the Bank is required either to establish a specific allowance for losses equal to the amount of impairment of the assets, or to charge-off such amount. The Bank of Greene County's determination as to the classification of its loans and the amount of its valuation allowance is subject to review by its regulatory agencies, which can order the establishment of additional general or specific loss allowances. The Bank of Greene County reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations.

The Bank primarily has four segments within its loan portfolio that it considers when measuring credit quality: residential real estate loans, commercial real estate loans, consumer loans and commercial loans. The residential real estate portfolio consists of residential, construction, and multi-family loan classes. Commercial real estate loans consist of commercial real estate and commercial construction loan classes. Consumer loans consist of home equity loan and consumer installment loan classes. The inherent risk within the loan portfolio varies depending upon each of these loan types.

The Bank of Greene County's primary lending activity historically has been the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 89.9% of the appraised value of the property. However, The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. In the event of default by the borrower, The Bank of Greene County will acquire and liquidate the underlying collateral. By originating the loan at a loan-to-value ratio of 89.9% or less or obtaining private mortgage insurance, The Bank of Greene County limits its risk of loss in the event of default. However, the market values of the collateral may be adversely impacted by declines in the economy. Home equity loans may have an additional inherent risk if The Bank of Greene County does not hold the first mortgage. The Bank of Greene County may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

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Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property within specified cost limits. The Bank of Greene County completes inspections during the construction phase prior to any disbursements. The Bank of Greene County limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

Loans collateralized by commercial real estate, and multi-family dwellings, such as apartment buildings generally are larger than residential loans and involve a greater degree of risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans. In addition, consumer loans expand the products and services offered by The Bank of Greene County to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the nature of the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate mortgage lending. Real estate lending is generally considered to be collateral-based, with loan amounts based on fixed loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment. Over the past few years, The Bank of Greene County has shifted more focus on the origination of commercial loans including commercial real estate. The Bank of Greene County has also formed relationships with other community banks within our region to participate in larger commercial loan relationships. These types of loans are generally considered to be riskier due to the size and complexity of the loan relationship. By entering into a participation agreement with the other bank, The Bank of Greene County can obtain the loan relationship while limiting its exposure to credit loss. Management completes its due diligence in underwriting these loans and monitors the servicing of these loans.

Loan balances by internal credit quality indicator at September 30, 2018 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 259,668	\$ 343	\$ 88	\$ 2,165	\$262,264
Residential construction and land	9,803	-	-	-	9,803
Multi-family	18,934	-	2,059	83	21,076
Commercial real estate	278,842	312	8,756	1,515	289,425
Commercial construction	38,660	-	-	176	38,836
Home equity	20,894	-	-	850	21,744

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Consumer installment	5,187	13	-	17	5,217
Commercial loans	86,542	-	513	656	87,711
Total gross loans	\$ 718,530	\$ 668	\$ 11,416	\$ 5,462	\$736,076

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Loan balances by internal credit quality indicator at June 30, 2018 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 252,811	\$ 577	\$ 88	\$ 2,372	\$ 255,848
Residential construction and land	9,951	-	-	-	9,951
Multi-family	12,743	-	2,132	86	14,961
Commercial real estate	273,077	317	8,994	1,547	283,935
Commercial construction	39,190	-	-	176	39,366
Home equity	21,170	128	-	621	21,919
Consumer installment	4,969	30	-	18	5,017
Commercial loans	83,148	195	457	844	84,644
Total gross loans	\$ 697,059	\$ 1,247	\$ 11,671	\$ 5,664	\$ 715,641

The Company had no loans classified doubtful or loss at September 30, 2018 or June 30, 2018.

Nonaccrual Loans

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. A nonaccrual loan is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at September 30, 2018 and June 30, 2018. Loans on nonaccrual status totaled \$3.4 million at September 30, 2018 of which \$1.8 million were in the process of foreclosure. At September 30, 2018, there were 10 residential loans in the process of foreclosure totaling \$1.2 million. Included in nonaccrual loans were \$1.6 million of loans which were less than 90 days past due at September 30, 2018, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were \$62,000 of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with the Bank to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, the Bank has agreed not to continue foreclosure proceedings. Loans on nonaccrual status totaled \$3.5 million at June 30, 2018 of which \$1.9 million were in the process of foreclosure. At June 30, 2018, there were 11 residential loans in the process of foreclosure totaling \$1.2 million. Included in nonaccrual loans were \$1.3 million of loans which were less than 90 days past due at June 30, 2018, but have a recent history of delinquency greater than 90 days past due.

The following table sets forth information regarding delinquent and/or nonaccrual loans at September 30, 2018:

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non-accrual
Residential real estate	\$ 3,140	\$ 337	\$ 823	\$ 4,300	\$ 257,964	\$ 262,264	\$ 1,634
Residential construction and land	-	-	-	-	9,803	9,803	-
Multi-family	141	-	-	141	20,935	21,076	-
Commercial real estate	1,150	481	568	2,199	287,226	289,425	1,119
Commercial construction	-	-	-	-	38,836	38,836	-
Home equity	179	-	408	587	21,157	21,744	529
Consumer installment	19	13	8	40	5,177	5,217	17
Commercial loans	433	103	-	536	87,175	87,711	88

Total gross loans	\$ 5,062	\$ 934	\$ 1,807	\$ 7,803	\$728,273	\$ 736,076	\$ 3,387
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The following table sets forth information regarding delinquent and/or nonaccrual loans at June 30, 2018:

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non-accrual
Residential real estate	\$ 1,617	\$ 458	\$ 1,211	\$ 3,286	\$252,562	\$ 255,848	\$ 1,778
Residential construction and land	-	-	-	-	9,951	9,951	-
Multi-family	-	-	-	-	14,961	14,961	-
Commercial real estate	1,568	487	568	2,623	281,312	283,935	1,147
Commercial construction	-	-	-	-	39,366	39,366	-
Home equity	38	128	299	465	21,454	21,919	298
Consumer installment	3	30	8	41	4,976	5,017	18
Commercial loans	250	195	182	627	84,017	84,644	276
Total gross loans	\$ 3,476	\$ 1,298	\$ 2,268	\$ 7,042	\$708,599	\$ 715,641	\$ 3,517

The Bank of Greene County had no accruing loans delinquent more than 90 days at September 30, 2018 and \$62,000 at June 30, 2018, respectively. The loans delinquent more than 90 days and accruing consist of loans that are well collateralized and the borrowers have demonstrated the ability and willingness to pay. The borrower has made arrangements with the Bank to bring the loan current within a specified time period and has made a series of payments as agreed.

The table below details additional information related to nonaccrual loans for the three months ended September 30:

(In thousands)	2018	2017
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 71	\$ 78
Interest income that was recorded on nonaccrual loans	32	34

Impaired Loan Analysis

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are reviewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Based on this evaluation, a delinquent loan's risk rating may be downgraded to either pass-watch, special mention, or substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation. Loans that have been modified as a troubled debt restructuring are included in impaired loans. The measurement of impairment is generally based on the discounted cash flows based on the original rate of the loan before the restructuring, unless it is determined that the restructured loan is collateral dependent. If the restructured loan is deemed to be collateral dependent, impairment is based on the fair value of the underlying collateral.

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The tables below detail additional information on impaired loans at the date or periods indicated:

(In thousands)	At September 30, 2018			For the three months ended September 30, 2018	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	\$-	\$ -	\$ -	\$ 7	\$ 3
Commercial real estate	794	794	-	796	8
Home equity	309	309	-	224	-
Commercial loans	155	155	-	157	-
Total impaired loans with no allowance	1,258	1,258	-	1,184	11
With an allowance recorded:					
Residential real estate	1,800	1,800	310	1,855	23
Commercial real estate	360	360	41	365	-
Commercial construction	176	176	29	176	-
Home equity	322	322	59	322	4
Total impaired loans with allowance	2,658	2,658	439	2,718	27
Total impaired:					
Residential real estate	1,800	1,800	310	1,862	26
Commercial real estate	1,154	1,154	41	1,161	8
Commercial construction	176	176	29	176	-
Home equity	631	631	59	546	4
Commercial loans	155	155	-	157	-
Total impaired loans	\$3,916	\$ 3,916	\$ 439	\$ 3,902	\$ 38

(In thousands)	At June 30, 2018			For the three months ended September 30, 2017	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	\$22	\$ 22	\$ -	\$ -	\$ -
Commercial real estate	799	799	-	807	8
Home equity	181	181	-	183	-
Commercial loans	347	347	-	245	-
Total impaired loans with no allowance	1,349	1,349	-	1,235	8
With an allowance recorded:					
Residential real estate	1,922	1,922	332	1,536	11
Commercial real estate	379	379	60	430	-
Commercial construction	176	176	29	176	-
Home equity	322	322	61	325	3
Total impaired loans with allowance	2,799	2,799	482	2,467	14
Total impaired loans:					
Residential real estate	1,944	1,944	332	1,536	11

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Commercial real estate	1,178	1,178	60	1,237	8
Commercial construction	176	176	29	176	-
Home equity	503	503	61	508	3
Commercial loans	347	347	-	245	-
Total impaired loans	\$4,148	\$ 4,148	\$ 482	\$ 3,702	\$ 22

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The table below details loans that have been modified as a troubled debt restructuring during the three months ended September 30, 2018 or 2017.

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Outstanding Recorded Investment
<u>September 30, 2018</u>				
None	-	-	-	-
<u>September 30, 2017</u>				
Home equity	1	\$ 325	\$ 325	\$ 325

There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to June 30, 2018 or 2017 which have subsequently defaulted during the three months ended September 30, 2018 or 2017, respectively.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of certain identified loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County considers smaller balance residential mortgages, home equity loans, commercial loans and installment loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Larger balance residential, commercial mortgage and business loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The Bank of Greene County charges loans off against the allowance for credit losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. For loans secured by real estate, a charge-off is recorded when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss can be reasonably estimated.

The following tables set forth the activity and allocation of the allowance for loan losses by loan category during and at the periods indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions.

(In thousands)	Activity for the three months ended September 30, 2018				Balance at September 30, 2018
	Balance at June 30, 2018	Charge-offs	Recoveries	Provision	

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Residential real estate	\$ 2,116	\$ 21	\$ 13	\$ -	\$ 2,108
Residential construction and land	114	-	-	2	116
Multi-family	162	-	-	9	171
Commercial real estate	5,979	-	-	44	6,023
Commercial construction	950	-	-	7	957
Home equity	317	-	-	-	317
Consumer installment	224	99	37	67	229
Commercial loans	2,128	-	-	5	2,133
Unallocated	34	-	-	220	254
Total	\$ 12,024	\$ 120	\$ 50	\$ 354	\$ 12,308

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(In thousands)	Allowance for Loan Losses		Loans Receivable	
	Ending Balance At		Ending Balance At	
	September 30, 2018		September 30, 2018	
	Impairment Analysis		Impairment Analysis	
	Individually	Collectively	Individually	Collectively
	Evaluated	Evaluated	Evaluated	Evaluated
Residential real estate	\$ 310	\$ 1,798	\$ 1,800	\$ 260,464
Residential construction and land	-	116	-	9,803
Multi-family	-	171	-	21,076
Commercial real estate	41	5,982	1,154	288,271
Commercial construction	29	928	176	38,660
Home equity	59	258	631	21,113
Consumer installment	-	229	-	5,217
Commercial loans	-	2,133	155	87,556
Unallocated	-	254	-	-
Total	\$ 439	\$ 11,869	\$ 3,916	\$ 732,160

Activity for the three months ended September 30, 2017

(In thousands)	Balance at				Balance at	
	June 30,					September 30,
	2017	Charge-offs	Recoveries	Provision		
Residential real estate	\$ 2,289	\$ 44	\$ -	\$ (169)	\$ 2,076	
Residential construction and land	89	-	-	4	93	
Multi-family	43	-	-	33	76	
Commercial real estate	5,589	-	-	170	5,759	
Commercial construction	687	-	-	63	750	
Home equity	234	-	-	81	315	
Consumer installment	231	88	18	42	203	
Commercial loans	1,680	157	-	225	1,748	
Unallocated	180	-	-	(102)	78	
Total	\$ 11,022	\$ 289	\$ 18	\$ 347	\$ 11,098	

(In thousands)	Allowance for Loan Losses		Loans Receivable	
	Ending Balance At		Ending Balance At	
	June 30, 2018		June 30, 2018	
	Impairment Analysis		Impairment Analysis	
	Individually	Collectively	Individually	Collectively
	Evaluated	Evaluated	Evaluated	Evaluated
Residential real estate	\$ 332	\$ 1,784	\$ 1,944	\$ 253,904
Residential construction and land	-	114	-	9,951
Multi-family	-	162	-	14,961
Commercial real estate	60	5,919	1,178	282,757
Commercial construction	29	921	176	39,190
Home equity	61	256	503	21,416
Consumer installment	-	224	-	5,017
Commercial loans	-	2,128	347	84,297
Unallocated	-	34	-	-
Total	\$ 482	\$ 11,542	\$ 4,148	\$ 711,493

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FRE consists of properties acquired through mortgage loan foreclosure proceedings or in full or partial satisfaction of loans. The following table sets forth information regarding FRE at September 30, 2018 and June 30, 2018:

(in thousands)	September 30, 2018	June 30, 2018
Residential real estate	\$ 79	\$ 119
Total foreclosed real estate	\$ 79	\$ 119

(6) Fair Value Measurements and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured at September 30, 2018 and June 30, 2018 and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The FASB ASC Topic on "Fair Value Measurement" established a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

(In thousands)	September 30, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)

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Assets:

U.S. Government sponsored enterprises	\$ 5,496	\$ -	\$ 5,496	\$ -
State and political subdivisions	92,320	-	92,320	-
Mortgage-backed securities-residential	2,985	-	2,985	-
Mortgage-backed securities-multi-family	17,095	-	17,095	-
Corporate debt securities	1,704	1,704	-	-
Securities available-for-sale	119,600	1,704	117,896	-
Equity securities	232	232	-	-
Total securities measured at fair value	\$ 119,832	\$ 1,936	\$ 117,896	\$ -

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(In thousands)	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government sponsored enterprises	\$ 5,531	\$ -	\$ 5,531	\$ -
State and political subdivisions	92,255	-	92,255	-
Mortgage-backed securities-residential	3,247	-	3,247	-
Mortgage-backed securities-multi-family	18,069	-	18,069	-
Corporate debt securities	1,704	1,704	-	-
Securities available-for-sale	\$ 120,806	\$ 1,704	\$ 119,102	\$ -
Equity securities	217	217	-	-
Total securities measured at fair value	\$ 121,023	\$ 1,921	\$ 119,102	\$ -

Certain investments that are actively traded and have quoted market prices have been classified as Level 1 valuations. Other available-for-sale investment securities have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

In addition to disclosures of the fair value of assets on a recurring basis, FASB ASC Topic on “Fair Value Measurement” requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis, such as impaired assets, in the period in which a re-measurement at fair value is performed. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated as required by the “Receivables –Loan Impairment” subtopic of the FASB ASC when establishing the allowance for credit losses. Impaired loans are those loans in which the Company has measured impairment based on the fair value of the loan’s collateral or the discounted value of expected future cash flows. Fair value is generally determined based upon market value evaluations by third parties of the properties and/or estimates by management of working capital collateral or discounted cash flows based upon expected proceeds. These appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property), and the cost approach. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as, changes in absorption rates or market conditions from the time of valuation and anticipated sales values considering management’s plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

Fair values for foreclosed real estate are initially recorded based on market value evaluations by third parties, less costs to sell (“initial cost basis”). Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to foreclosed real estate are charged to the allowance for loan losses. Values are derived from appraisals, similar to impaired loans, of underlying collateral or discounted cash flow analysis. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value,

not to exceed the initial cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as, changes in absorption rates and market conditions from the time of valuation and anticipated sales values considering management's plans for disposition. Either change could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the fair value hierarchy.

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(In thousands)	Recorded Investment	Related Allowance	Fair Value	Fair Value Measurements Using (Level		
				1)	(Level 2)	(Level 3)
September 30, 2018						
Impaired loans	\$ 2,658	\$ 439	\$ 2,219	\$ -	\$ -	\$ 2,219
Foreclosed real estate	79	-	79	-	-	79
June 30, 2018						
Impaired loans	\$ 2,799	\$ 482	\$ 2,317	\$ -	\$ -	\$ 2,317
Foreclosed real estate	119	-	119	-	-	119

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were utilized to determine fair value:

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average	
September 30, 2018						
Impaired Loans	\$ 1,594	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	26.58%-31.00 %	28.11	%
			Liquidation expenses ⁽³⁾	4.14%-7.26 %	5.11	%
	625	Discounted cash flow	Discount rate	4.19%-6.63 %	5.36	%
Foreclosed real estate	79	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	0.00-0.00 %	0.00	%
			Liquidation expenses ⁽³⁾	8.99%-8.99 %	8.99	%
June 30, 2018						
Impaired loans	\$ 1,687	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	26.58%-31.00 %	28.17	%
			Liquidation expenses ⁽³⁾	4.14%-7.26 %	5.07	%
	630	Discounted cash flow	Discount rate	4.19%-6.63		