Sound Financial Bancorp, Inc.
Form 10-Q
November 13, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to

COMMISSION FILE NUMBER 001-35633

Sound Financial Bancorp, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland	45-5188530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2400 3rd Avenue, Suite 150, Seattle, Washington	98121
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (206) 448-0884

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by checkmark 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 checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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

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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

As of November 7, 2018, there were 2,539,814 shares of the registrant's common stock outstanding.

SOUND FINANCIAL BANCORP, INC.
FORM 10-Q
TABLE OF CONTENTS

EXHIBITS

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets (unaudited)
(In thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 62,292	$ 60,680
Available-for-sale securities, at fair value	5,011	5,435
Loans held-for-sale	695	1,777
Loans held-for-portfolio	617,230	548,595
Allowance for loan losses	(5,748)	(5,241)
Total loans held-for-portfolio, net	611,482	543,354
Accrued interest receivable	2,204	1,977
Bank-owned life insurance ("BOLI"), net	13,304	12,750
Other real estate owned ("OREO") and repossessed assets, net	600	610
Mortgage servicing rights, at fair value	3,447	3,426
Federal Home Loan Bank ("FHLB") stock, at cost	4,634	3,065
Premises and equipment, net	7,255	7,392
Other assets	4,399	4,778
Total assets	$ 715,323	$ 645,244
LIABILITIES		
Deposits		
Interest-bearing	$ 439,923	$ 442,277
Noninterest-bearing demand	99,909	72,123
Total deposits	539,832	514,400
Borrowings	96,500	59,000
Accrued interest payable	93	77
Other liabilities	7,636	5,972
Advance payments from borrowers for taxes and insurance	1,132	635
Total liabilities	645,193	580,084
COMMITMENTS AND CONTINGENCIES (NOTE 7)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized, 2,539,814 and 2,511,127 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	25	25
Additional paid-in capital	25,523	24,986
Unearned shares - Employee Stock Ownership Plan ("ESOP")	(369)	(453)
Retained earnings	44,879	40,493
Accumulated other comprehensive income, net of tax	72	109
Total stockholders' equity	70,130	65,160
Total liabilities and stockholders' equity	$ 715,323	$ 645,244

See notes to condensed consolidated financial statements

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Loans, including fees	$7,932	$6,832	$23,077	$19,630
Interest and dividends on investments, cash and cash equivalents	378	234	888	544
Total interest income	8,310	7,066	23,965	20,174
INTEREST EXPENSE				
Deposits	974	808	2,665	2,199
Borrowings	439	72	993	238
Total interest expense	1,413	880	3,658	2,437
Net interest income	6,897	6,186	20,307	17,737
PROVISION FOR LOAN LOSSES	250	250	500	250
Net interest income after provision for loan losses	6,647	5,936	19,807	17,487
NONINTEREST INCOME				
Service charges and fee income	504	439	1,426	1,442
Earnings on cash surrender value of bank-owned life insurance	149	82	308	245
Mortgage servicing income	22	18	447	399
Net gain on sale of loans	333	287	1,008	720
Other income	490	—	490	—
Total noninterest income	1,498	826	3,679	2,806
NONINTEREST EXPENSE				
Salaries and benefits	3,327	2,777	9,523	8,130
Operations	1,280	1,002	3,718	3,052
Regulatory assessments	136	80	328	340
Occupancy	588	520	1,636	1,415
Data processing	528	448	1,442	1,293
Net loss on OREO and repossessed assets	11	109	62	123
Total noninterest expense	5,870	4,936	16,709	14,353
Income before provision for income taxes	2,275	1,826	6,777	5,940
Provision for income taxes	445	604	1,380	2,001
Net income	$1,830	$1,222	$5,397	$3,939
Earnings per common share:				
Basic	$0.73	$0.49	$2.17	$1.57
Diluted	$0.71	$0.48	$2.10	$1.54
Weighted-average number of common shares outstanding:				
Basic	2,502,959	2,506,863	2,492,738	2,502,399
Diluted	2,569,535	2,562,373	2,564,688	2,562,606

See notes to condensed consolidated financial statements

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Comprehensive Income (unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$1,830	$1,222	$5,397	$3,939
Available for sale securities:				
Unrealized holding (losses)/gains arising during the period	(8)	12	(46)	100
Income tax benefit/(expense) related to unrealized gains/losses	1	(4)	9	(34)
Other comprehensive (loss)/income, net of tax	(7)	8	(37)	66
Comprehensive income	$1,823	$1,230	$5,360	$4,005

See notes to condensed consolidated financial statements

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2018 and 2017 (unaudited)
(In thousands, except share and per share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income, net of tax	Total Stockholders' Equity
Balances at December 31, 2016	2,498,804	$ 25	$ 23,979	$ (683)	$ 36,873	$ 81	$ 60,275
Net income					3,939		3,939
Other comprehensive income, net of tax						66	66
Share-based compensation			285				285
Cash dividends paid on common stock ($0.50 per share)					(1,254)		(1,254)
Common stock surrendered	(3,353)						
Restricted stock awards issued	576						—
Exercise of options	14,018		33				33
Balances at September 30, 2017	2,510,045	$ 25	$ 24,297	$ (683)	$ 39,558	$ 147	$ 63,344

	Shares	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income, net of tax	Total Stockholders' Equity
Balances at December 31, 2017	2,511,127	$ 25	$ 24,986	$ (453)	$ 40,493	$ 109	$ 65,160
Net income					5,397		5,397
Other comprehensive loss, net of tax						(37)	(37)
Share-based compensation			201				201
Cash dividends paid on common stock ($0.40 per share)					(1,011)		(1,011)
Restricted shares forfeited	(343)						—
Common stock surrendered	(15,990)						—
Exercise of options	45,020		102				102
Allocation of ESOP shares			234	84			318
Balances at September 30, 2018	2,539,814	$ 25	$ 25,523	$ (369)	$ 44,879	$ 72	$ 70,130

See notes to condensed consolidated financial statements

6

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,397	$3,939
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of net discounts on investments	(31)	(16)
Provision for loan losses	500	250
Depreciation and amortization	745	706
Compensation expense related to stock options and restricted stock	201	285
Change in fair value of mortgage servicing rights	381	191
Increase in cash surrender value of BOLI	(240)	(245)
Net change in advances from borrowers for taxes and insurance	497	428
Net gain on sale of loans	(1,008)	(720)
Proceeds from sale of loans held-for-sale	39,739	35,818
Originations of loans held-for-sale	(38,314)	(34,536)
Net loss on OREO and repossessed assets	62	123
Change in operating assets and liabilities:		
Accrued interest receivable	(227)	(127)
Other assets	379	(482)
Accrued interest payable	16	(5)
Other liabilities	1,664	367
Net cash provided by operating activities	9,761	5,976
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments, maturities and sales of available-for-sale securities	455	1,032
Net increase in loans	(68,635)	(28,505)
Purchase of BOLI	(315)	(275)
Purchases of premises and equipment, net	(608)	(2,495)
Proceeds from sale of OREO and other repossessed assets	—	248
Net cash received from branch acquisition	—	13,671
Net cash used in investing activities	(69,103)	(16,324)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	25,432	43,415
Proceeds from borrowings	198,000	137,000
Repayment of borrowings	(160,000)	(163,792)
FHLB stock (purchased)/redeemed	(1,569)	1,015
Dividends paid on common stock	(1,011)	(1,254)
Proceeds from stock option exercises	102	33
Net cash provided by financing activities	60,954	16,417
Net change in cash and cash equivalents	1,612	6,069
Cash and cash equivalents, beginning of period	60,680	54,582
Cash and cash equivalents, end of period	$62,292	$60,651
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes	$2,200	$1,910

Interest paid on deposits and borrowings	3,674	2,442
Assets acquired in acquisition of branch	—	14,474

See notes to condensed consolidated financial statements

Table of Contents

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 – Basis of Presentation

The accompanying financial information is unaudited and has been prepared from the consolidated financial statements of Sound Financial Bancorp, Inc., and its wholly owned subsidiary, Sound Community Bank. References in this document to Sound Financial Bancorp refer to Sound Financial Bancorp, Inc. and references to the "Bank" refer to Sound Community Bank. References to "we," "us," and "our" or the "Company" refers to Sound Financial Bancorp and its wholly-owned subsidiary, Sound Community Bank, unless the context otherwise requires.

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These unaudited financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 27, 2018 ("2017 Form 10-K"). The results for the interim periods are not necessarily indicative of results for a full year.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current presentation. These classifications do not have an impact on previously reported consolidated net income, retained earnings, stockholders' equity or earnings per share.

Note 2 – Accounting Pronouncements Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) which postponed the effective date of 2014-09. Subsequently, in March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. This amendment clarifies that an entity should determine if it is the principal or the agent for each specified good or service promised in a contract with a customer. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The core principle of Topic 606 is that an entity must recognize revenue when it has satisfied a performance obligation of transferring promised goods or services to a customer. These standards were effective for interim and annual periods beginning after December 15, 2017. The Company has analyzed its revenue sources of noninterest income to determine when the satisfaction of the performance obligation occurs and the appropriate recognition of revenue. For further information, see Note 11 - Revenue from Contracts with Customers of this report. The adoption of these ASUs did not have a material impact on the Company's consolidated financial statements, other than the additional disclosures included in Note 11 of this report.

In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendments in this ASU require an entity to disclose the fair value of financial instruments using the exit price notion. Exit price is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods of determining the fair value of assets and liabilities are consistent with our methodologies disclosed in Note 11 - Fair Value Measurements of the Company's 2017 Form 10-K, except for the valuation of loans held-for-investment and time deposits which were impacted by the adoption of ASU 2016-01. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. As of September 30, 2018, the technique used by the Company to estimate the exit price of the loan portfolio consists of similar procedures to those used as of December 31, 2017, but with added emphasis on both illiquidity risk and credit risk not captured by the previously applied entry price notion. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The amendments in this ASU were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has used the exit price notion in the fair value disclosure of financial instruments in Note 5 of this report. The adoption of ASU 2016-01 did not have a material impact on the Company's consolidated financial statements.

Table of Contents

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 requires lessees to recognize, on the balance sheet, the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For a finance lease, interest payments should be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), Targeted Improvements. This ASU amended the new leases standard to give entities another option for transition and to provide lessors with a practical expedient. The transition option allows entities to not apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. The practical expedient provides lessors with an option to not separate non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the new revenue standard if the associated non-lease components are the predominant components. The amendments have the same effective date as ASU 2016-02. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted. The effect of the adoption of these ASUs will depend on leases at time of adoption.

Although an estimate of the impact of the new leasing standard has not yet been determined, once adopted, we expect to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the existing incurred loss impairment methodology that recognizes credit losses when a probable loss has been incurred with new methodology where loss estimates are based upon lifetime expected credit losses. The amendments in this ASU require a financial asset that is measured at amortized cost to be presented at the net amount expected to be collected. The income statement would then reflect the measurement of credit losses for newly recognized financial assets as well as changes to the expected credit losses that have taken place during the reporting period. The measurement of expected credit losses will be based on historical information, current conditions, and reasonable and supportable forecasts that impact the collectability of the reported amount. Available-for-sale securities will bifurcate the fair value mark and establish an allowance for credit losses through the income statement for the credit portion of that mark. The interest portion will continue to be recognized through accumulated other comprehensive income or loss. The change in allowance recognized as a result of adoption will occur through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the ASU is adopted. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 with early adoption permitted after December 15, 2018. While the Company has not quantified the impact of this ASU, it does expect changing from the current incurred loss model to an expected loss model will result in an earlier recognition of losses. The Company also expects that once adopted the allowance for loan losses will increase, however, until its evaluation is complete the magnitude of the increase will be unknown.

In August 2016, FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the appropriate classification of eight specific cash flow issues on the cash flow statement. Debt prepayment costs should be classified as an outflow for financing activities. Settlement of zero-coupon debt instruments divides the interest portion as an outflow for operating activities and the principal portion as an outflow for financing activities. Contingent consideration payments made after a business combination should be classified as outflows for financing and operating activities. Proceeds from the settlement of bank-owned life insurance policies should be classified as inflows from investing activities. Other specific areas are identified in the ASU as to the appropriate classification of the cash inflows or outflows. The amendments in this ASU were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not currently have items on its cash flow statement that were impacted by adoption of this ASU and therefore adoption of ASU 2016-15 did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20). ASU 2017-08 is intended to amend the amortization period for certain purchased callable debt securities held at a premium. Under ASU 2017-08, the FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. ASU 2017-08 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company is reviewing its securities portfolio to assess the impact the adoption of this ASU will have on the Company's consolidated financial statements but does not expect this ASU to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation--Stock Compensation (Topic 718): Scope of Modification Accounting. The ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. According to this ASU, an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. The standard was effective for reporting periods beginning after December 15, 2017. The Company has not had any modifications on share-based payment awards and therefore the adoption of ASU No. 2017-09 did not have a material impact on the Company's consolidated financial statements.

Table of Contents

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and reduce the complexity of and simplify the application of hedge accounting by preparers. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220). This ASU was issued to allow a reclassification from accumulated other comprehensive income to retained earnings from stranded tax effects resulting from the revaluation of the Company's net deferred tax asset ("DTA") to the new corporate tax rate of 21% as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). The ASU is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. The adoption of ASU No. 2018-02 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2018, FASB issued ASU No. 2018-05, Income Taxes (Topic 740). This ASU was issued to provide guidance on the income tax accounting implications of the Tax Act and allows for entities to report provisional amounts for specific income tax effects of the Act for which the accounting under Topic 740 was not yet complete, but a reasonable estimate could be determined. A measurement period of one-year is allowed to complete the accounting effects under Topic 740 and revise any previous estimates reported. Any provisional amounts or subsequent adjustments included in an entity's financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense in the reporting period the amounts are determined. The Company adopted this ASU with the provisional adjustments as reported in the Consolidated Financial Statements on Form 10-K as of December 31, 2017. As of September 30, 2018, the Company did not incur any adjustments to the provisional recognition.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This ASU amends the accounting for shared-based payments awards to nonemployees to align with the accounting for employee awards. Under the new guidance, the existing employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for nonemployee awards. Amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2018-07 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). This ASU modifies the disclosure requirements on fair value measurements. The following disclosure requirements were removed from FASB Accounting Standards Codification ("ASC") Topic 820 – Fair Value Measurement: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; and (3) the valuation processes for Level 3 fair value measurements. This ASU clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds the following disclosure requirements for Level 3 measurements: (1) changes in unrealized gains and losses for the period included in other comprehensive income for the recurring Level 3 fair value measurements held at the end of the reporting period; and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for any removed or modified disclosures. The adoption of ASU 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents

Note 3 – Investments

The amortized cost and fair value of our available-for-sale ("AFS") securities and the corresponding amounts of gross unrealized gains and losses at the dates indicated were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2018				
Municipal bonds	$ 3,224	$ 111	$ (29)	$ 3,306
Agency mortgage-backed securities	1,668	39	(2)	1,705
Total	$ 4,892	$ 150	$ (31)	$ 5,011
December 31, 2017				
Municipal bonds	$ 3,240	$ 155	$ (26)	$ 3,369
Agency mortgage-backed securities	2,030	36	—	2,066
Total	$ 5,270	$ 191	$ (26)	$ 5,435

The amortized cost and fair value of AFS securities at September 30, 2018, by contractual maturity, are shown below (in thousands). Expected maturities of AFS securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments not due at a single maturity date, primarily mortgage-backed investments, are shown separately.

	September 30, 2018	
	Amortized Cost	Fair Value
Due after one year through five years	$1,571	$1,547
Due after five years through ten years	153	160
Due after ten years	1,500	1,599
Mortgage-backed securities	1,668	1,705
Total	$4,892	$5,011

There were no pledged securities at September 30, 2018 and December 31, 2017.

There were no sales of AFS securities during the three and nine months ended September 30, 2018 and 2017.

The following tables summarize the aggregate fair value and gross unrealized loss by length of time of those investments that have been in a continuous unrealized loss position at the dates indicated (in thousands):

	September 30, 2018					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$—	$ —	$1,282	$ (29)	$1,282	$ (29)
Agency mortgage-backed securities	235	(2)	—	—	235	(2)
Total	$235	$ (2)	$1,282	$ (29)	$1,517	$ (31)

December 31, 2017

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$—	$ —	$1,302	$ (26)	$1,302	$ (26)
Total	$—	$ —	$1,302	$ (26)	$1,302	$ (26)

There were no credit losses recognized in earnings during the three and nine months ended September 30, 2018 or 2017 relating to the Company's securities.

At September 30, 2018, there was one security in an unrealized loss position for less than 12 months and there were three municipal securities in an unrealized loss position for over 12 months. At December 31, 2017, there were no securities in an unrealized loss position for less than 12 months and there were three municipal securities in an unrealized loss position for more than 12 months. The unrealized losses were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not related to the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because we do not intend to sell the securities in this class and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered an other-than-temporary impairment ("OTTI") during the three and nine months ended September 30, 2018 and 2017.

Table of Contents

Note 4 – Loans

The composition of the loans-held-for portfolio at the dates indicated, excluding loans held-for-sale, was as follows (in thousands):

	September 30, 2018	December 31, 2017
Real estate loans:		
One-to-four family	$170,509	$157,417
Home equity	28,525	28,379
Commercial and multifamily	254,050	211,269
Construction and land	60,877	61,482
Total real estate loans	$513,961	$458,547
Consumer loans:		
Manufactured homes	19,448	17,111
Floating homes	41,377	29,120
Other consumer	5,026	4,902
Total consumer loans	65,851	51,133
Commercial business loans	39,681	40,829
Total loans held-for-portfolio	619,493	550,509
Deferred fees	(2,263)	(1,914)
Total loans, gross held-for-portfolio	617,230	548,595
Allowance for loan losses	(5,748)	(5,241)
Total loans held-for-portfolio, net	$611,482	$543,354

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2018 (in thousands):

	One-to-four family	Home equity	Commercial and multifamily	Construction and land	Manufactured homes	Floating homes	Other consumer	Commercial business	Unallocated	Total
Allowance for loan losses:										
Individually evaluated for impairment	$363	$30	$—	$9	$295	$—	$69	$179	$—	$945
Collectively evaluated for impairment	1,076	180	1,631	379	124	269	38	240	866	4,803
Ending balance	$1,439	$210	$1,631	$388	$419	$269	$107	$419	$866	$5,748
Loans hed-for-portfolio:										
Individually evaluated for impairment	$4,932	$823	$3,274	$2,484	$425	$—	$163	$2,883	$—	$14,984
Collectively evaluated for impairment	165,577	27,702	250,776	58,393	19,023	41,377	4,863	36,798	—	604,509
Ending balance	$170,509	$28,525	$254,050	$60,877	$19,448	$41,377	$5,026	$39,681	$—	$619,493

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2017 (in thousands):

	One-to-four family	Home equity	Commercial and multifamily	Construction and land	Manufactured homes	Floating homes	Other consumer	Commercial business	Unallocated	Total
Allowance for loan losses:										
Individually evaluated for impairment	$555	$120	$—	$13	$258	$—	$43	$135	$—	$1,124
Collectively evaluated for impairment	881	173	1,250	365	97	169	37	237	908	4,117
Ending balance	$1,436	$293	$1,250	$378	$355	$169	$80	$372	$908	$5,241
Loans held-for-portfolio:										
Individually evaluated for impairment	$6,256	$1,028	$1,699	$141	$385	$—	$194	$1,000	$—	$10,703
Collectively evaluated for impairment	151,161	27,351	209,570	61,341	16,726	29,120	4,708	39,829	—	539,806
Ending balance	$157,417	$28,379	$211,269	$61,482	$17,111	$29,120	$4,902	$40,829	$—	$550,509

Table of Contents

The following table summarizes the activity in the allowance for loan losses for the three months ended September 30, 2018 (in thousands):

	Beginning Allowance	Charge-offs	Recoveries	Provision	Ending Allowance
One-to-four family	$ 1,579	$ —	$ —	$ (140)	$ 1,439
Home equity	211	—			