

TF FINANCIAL CORP  
Form 10-Q  
May 13, 2011

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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 period ended March 31, 2011

- 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: 0-24168

TF FINANCIAL CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania  
(State or Other Jurisdiction of Incorporation  
or Organization)

74-2705050  
(I.R.S. Employer Identification No.)

3 Penns Trail, Newtown, Pennsylvania  
(Address of Principal Executive Offices)

18940  
(Zip Code)

Registrant's telephone number, including area code: (215) 579-4000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: May 12, 2011

Class	Outstanding
\$.10 par value common stock	2,822,449 shares

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Exhibits

<u>31.1</u>	<u>Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of CFO pursuant of Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.</u>	<u>Certification pursuant of Section 906 of the Sarbanes-Oxley Act of 2002</u>

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## TF Financial Corporation and Subsidiaries

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 2011	December 31, 2010
	(in thousands)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,668	\$ 7,437
Investment securities	119,909	127,490
Loans receivable, net	498,664	501,528
Loans receivable held for sale	215	130
Federal Home Loan Bank stock—at cost	8,931	9,401
Accrued interest receivable	2,584	2,738
Premises and equipment, net	6,669	6,797
Goodwill	4,324	4,324
Bank-owned life insurance	18,026	17,868
Other assets	14,231	14,044
<b>TOTAL ASSETS</b>	<b>\$ 684,221</b>	<b>\$ 691,757</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits	\$ 547,753	\$ 550,135
Borrowings from the Federal Home Loan Bank	55,387	61,987
Advances from borrowers for taxes and insurance	1,824	2,166
Accrued interest payable	2,214	1,784
Other liabilities	2,773	2,269
<b>Total liabilities</b>	<b>609,951</b>	<b>618,341</b>
<b>Stockholders' equity</b>		
Preferred stock, no par value; 2,000,000 shares authorized at March 31, 2011 and December 31, 2010, none issued	—	—
Common stock, \$0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued and, 2,822,449 shares outstanding at March 31, 2011 and December 31, 2010, respectively, net of shares in treasury of 2,467,551, respectively	529	529
Additional paid-in capital	54,012	53,964
Unearned ESOP shares	(1,186)	(1,217)
Treasury stock-at cost	(51,220)	(51,220)
Retained earnings	71,237	70,749
Accumulated other comprehensive income	898	611
<b>Total stockholders' equity</b>	<b>74,270</b>	<b>73,416</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 684,221</b>	<b>\$ 691,757</b>

The accompanying notes are an integral part of these statements



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TF Financial Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	For the three months ended March 31,	
	2011	2010
<b>Interest income</b>		
Loans, including fees	\$ 6,584	\$ 7,302
<b>Investment securities</b>		
Fully taxable	896	1,075
Exempt from federal taxes	355	297
Interest-bearing deposits and other	—	1
<b>TOTAL INTEREST INCOME</b>	<b>7,835</b>	<b>8,675</b>
<b>Interest expense</b>		
Deposits	1,460	1,995
Borrowings	559	848
<b>TOTAL INTEREST EXPENSE</b>	<b>2,019</b>	<b>2,843</b>
<b>NET INTEREST INCOME</b>	<b>5,816</b>	<b>5,832</b>
Provision for loan losses	900	961
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,916</b>	<b>4,871</b>
<b>Non-interest income</b>		
Service fees, charges and other operating income	465	529
Bank-owned life insurance	157	172
Gain on sale of loans	117	60
Gain (loss) on sale of foreclosed real estate	11	(145)
<b>TOTAL NON-INTEREST INCOME</b>	<b>750</b>	<b>616</b>
<b>Non-interest expense</b>		
Compensation and benefits	2,746	2,700
Occupancy and equipment	818	759
Professional fees	478	228
Marketing and advertising	67	120
FDIC insurance premiums	233	194
Other operating	634	591

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TOTAL NON-INTEREST EXPENSE	4,976	4,592
INCOME BEFORE INCOME TAXES	690	895
Income taxes	72	178
NET INCOME	\$ 618	\$ 717
Earnings per share—basic	\$ 0.23	\$ 0.27
Earnings per share—diluted	\$ 0.23	\$ 0.27
Dividends paid per share	\$ 0.05	\$ 0.19

The accompanying notes are an integral part of these statements

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## TF Financial Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the three months ended March 31,	
	2011	2010
	(in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 618	\$ 717
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of:		
Mortgage loan servicing rights	50	(3)
Deferred loan origination fees	67	51
Premiums and discounts on investment securities, net	101	17
Premiums and discounts on loans, net	2	43
Provision for loan losses	900	961
Depreciation of premises and equipment	219	212
Increase in value of bank-owned life insurance	(157)	(172)
Share-based compensation	79	73
Proceeds from sale of loans originated for sale	5,767	6,327
Origination of loans held for sale	(5,785)	(6,114)
(Gain) loss on sale of:		
Loans held for sale	(117)	(60)
Foreclosed real estate	(11)	145
Decrease (increase) in:		
Accrued interest receivable	154	76
Other assets	324	(225)
Increase (decrease) in:		
Accrued interest payable	430	71
Other liabilities	408	(773)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,049</b>	<b>1,346</b>
<b>INVESTING ACTIVITIES</b>		
Loan originations	(22,525)	(16,357)
Loan principal payments	23,578	20,855
Principal repayments on investment securities	7,882	6,613
Purchase of investment securities	—	(9,942)
Redemption of FHLB stock	470	—

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Proceeds from the sale of foreclosed real estate	322	—
Purchase of premises and equipment	(91)	(482)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>9,636</b>	<b>687</b>

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	For the three months ended March 31,	
	2011	2010
	(in thousands)	
<b>FINANCING ACTIVITIES</b>		
Net (decrease) increase in customer deposits	(2,382)	709
Proceeds of long-term Federal Home Loan Bank borrowings	—	8,000
Repayment of long-term Federal Home Loan Bank borrowings	(6,600)	(6,503)
Net decrease in advances from borrowers for taxes and insurance	(342)	(268)
Exercise of stock options	—	72
Common stock dividends paid	(130)	(505)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(9,454)</b>	<b>1,505</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,231</b>	<b>3,538</b>
Cash and cash equivalents at beginning of period	7,437	12,801
Cash and cash equivalents at end of period	\$ 10,668	\$ 16,339
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for:		
Interest on deposits and borrowings	\$ 1,589	\$ 2,772
Income taxes	\$ 300	\$ 30
Non-cash transactions:		
Transfers from loans to foreclosed real estate	\$ 843	\$ —

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of March 31, 2011 (unaudited) and December 31, 2010 and for the three month period ended March 31, 2011 and 2010 (unaudited) include the accounts of TF Financial Corporation (the “Company”) and its wholly owned subsidiaries Third Federal Bank (the “Bank”), TF Investments Corporation and Penns Trail Development Corporation. The accompanying consolidated balance sheet at December 31, 2010, has been derived from the audited consolidated balance sheet but does not included all of the information and notes required by accounting principles generally accepted in the United States of America (“US GAAP”) for complete financial statements. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

## NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by US GAAP. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended March 31, 2011 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

## NOTE 3 - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company’s consolidated financial position or results of operations.

## NOTE 4 - OTHER COMPREHENSIVE INCOME

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Total comprehensive income was \$905,000 and \$908,000 for the three months ended March 31, 2011 and 2010, respectively. The components of other comprehensive income are as follows for the three months ended:

	Before tax amount	March 31, 2011 Tax (expense) (in thousands)	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	\$ 404	\$ (137)	\$ 267
Pension plan benefit adjustment related to actuarial losses	29	(9)	20
Other comprehensive income, net	\$ 433	\$ (146)	\$ 287
	Before tax	March 31, 2010 Tax	Net of tax

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	amount	(expense)	amount
		(in thousands)	
Unrealized gains on securities			
Unrealized holding gains arising during period	\$ 257	\$ (88)	\$ 169
Pension plan benefit adjustment related to actuarial losses	33	(11)	22
Other comprehensive income, net	\$ 290	\$ (99)	\$ 191

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## NOTE 5—EARNINGS PER SHARE

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except share and per share data):

	Three months ended March 31, 2011		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	\$ 618	2,703,380	\$ 0.23
Effect of dilutive securities			
Stock options and grants	—	209	
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 618	2,703,589	\$ 0.23

There were 71,010 options to purchase shares of common stock at a price range of \$24.12 to \$32.51 per share which were outstanding during the three months ended March 31, 2011 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

	Three months ended March 31, 2010		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	\$ 717	2,669,276	\$ 0.27
Effect of dilutive securities			
Stock options and grants	—	—	
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 717	2,669,276	\$ 0.27

There were 269,675 options to purchase shares of common stock at a price range of \$19.33 to \$32.51 per share which were outstanding during the three months ended March 31, 2010 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

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## NOTE 6—INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities at March 31, 2011 and December 31, 2010, are summarized as follows:

	March 31, 2011			
	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses	Fair value
Available for sale				
U.S. Government and federal agencies	\$ 6,000	\$ 37	\$ —	\$ 6,037
Corporate debt securities	3,340	204	—	3,544
State and political subdivisions	47,320	1,598	(66)	48,852
Residential mortgage-backed securities issued by quasi-governmental agencies	44,142	1,593	(19)	45,716
Residential mortgage-backed securities privately issued	12,451	324	(1)	12,774
Total investment securities available for sale	113,253	3,756	(86)	116,923
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	2,986	339	—	3,325
Total investment securities	\$ 116,239	\$ 4,095	\$ (86)	\$ 120,248

	December 31, 2010			
	Amortized cost	Gross unrealized gains (in thousands)	Gross unrealized losses	Fair value
Available for sale				
U.S. Government and federal agencies	\$ 6,000	\$ 59	\$ —	\$ 6,059
Corporate debt securities	3,340	223	—	3,563
State and political subdivisions	47,348	1,120	(260)	48,208
Residential mortgage-backed securities issued by quasi-governmental agencies	50,942	1,950	(6)	52,886
Residential mortgage-backed securities, privately issued	13,425	224	(44)	13,605
Total investment securities available for sale	121,055	3,576	(310)	124,321
Held to maturity				
Residential mortgage-backed securities held to maturity issued by quasi-governmental agencies	3,169	341	—	3,510
Total investment securities	\$ 124,224	\$ 3,917	\$ (310)	\$ 127,831

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The table below indicates the length of time individual securities have been in a continuous unrealized loss position at March 31, 2011:

Description of Securities	Number of Securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair value	Unrealized Loss
(in thousands)							
State and political subdivisions	7	\$ 4,352	\$ (66)	\$ —	\$ —	\$ 4,352	\$ (66)
Residential mortgage-backed securities issued by quasi-governmental agencies	1	2,954	(19)	—	—	2,954	(19)
Residential mortgage-backed securities privately issued	1	177	(1)	—	—	177	(1)
Total temporarily impaired securities	9	\$ 7,483	\$ (86)	\$ —	\$ —	\$ (7,483)	\$ (86)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2010:

Description of Securities	Number of Securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair value	Unrealized Loss
(in thousands)							
State and political subdivisions	17	\$ 14,210	\$ (260)	\$ —	\$ —	\$ 14,210	\$ (260)
Residential mortgage-backed securities issued by quasi-governmental agencies	1	3,027	(6)	—	—	3,027	(6)
Residential mortgage-backed securities privately issued	3	7,048	(44)	—	—	7,048	(44)
Total temporarily impaired securities	21	\$ 24,285	\$ (310)	\$ —	\$ —	\$ 24,285	\$ (310)

On a quarterly basis, temporarily impaired securities are evaluated to determine whether such impairment is other-than-temporary impairment (“OTTI”). The Company has performed this evaluation and has determined that the unrealized losses at March 31, 2011 and December 31, 2010, respectively, are not considered other-than-temporary

but are the results of changes in interest rates, and are therefore reflected in other comprehensive income.

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## NOTE 7—LOANS RECEIVABLE

Loans receivable are summarized as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Held for investment:		
First mortgage loans		
Secured by one-to four-family residences	\$ 267,265	\$ 269,077
Secured by non-residential properties or non—owner occupied residential properties	140,905	137,307
Construction loans	18,462	18,799
Total first mortgage loans	426,632	425,183
Other loans		
Commercial-business, real estate secured	24,628	26,603
Commercial-business, non-real estate secured	5,114	5,575
Home equity and second mortgage	48,150	49,430
Other consumer	2,408	2,407
Total other loans	80,300	84,015
Total loans	506,932	509,198
Net deferred loan origination costs and unamortized premiums	638	658
Less allowance for loan losses	(8,906)	(8,328)
Total loans receivable	\$ 498,664	\$ 501,528
Held for sale:		
First mortgage loans		
Secured by one-to four-family residences	\$ 215	\$ 130

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The following table presents the composition of the commercial loan portfolio by credit quality indicators:

Commercial credit exposure-credit risk profile by internally assigned grade  
March 31, 2011

	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Secured by non-residential properties or non—owner occupied residential properties	\$ 111,328	\$ 19,561	\$ 10,016	\$ —	\$ 140,905
Construction loans	3,102	5,849	9,511	—	18,462
Commercial-business, real estate secured	13,827	1,001	9,800	—	24,628
Commercial-business, non-real estate secured	5,114	—	—	—	5,114
<b>Total</b>	<b>\$ 133,371</b>	<b>\$ 26,411</b>	<b>\$ 29,327</b>	<b>\$ —</b>	<b>\$ 189,109</b>

Commercial credit exposure-credit risk profile by internally assigned grade  
December 31, 2010

	Pass	Special mention	Substandard (in thousands)	Doubtful	Total
Secured by non-residential properties or non—owner occupied residential properties	\$ 108,484	\$ 19,299	\$ 9,524	\$ —	\$ 137,307
Construction loans	3,482	6,269	9,048	—	18,799
Commercial-business, real estate secured	15,778	1,007	9,818	—	26,603
Commercial-business, non-real estate secured	5,531	—	—	44	5,575
<b>Total</b>	<b>\$ 133,275</b>	<b>\$ 26,575</b>	<b>\$ 28,390</b>	<b>\$ 44</b>	<b>\$ 188,284</b>

In order to assess and monitor the credit risk associated with commercial loans, the Company employs a risk rating methodology whereby each commercial loan is initially assigned a risk grade. At least annually, all risk ratings are reviewed in light of information received such as tax returns, rent rolls, cash flow statements, appraisals, and any other information which may affect the then current risk rating, which is adjusted upward or downward as needed. At the end of each quarter the risk ratings are summarized and become a component of the evaluation of the allowance for loan losses. The Company's risk rating definitions mirror those promulgated by banking regulators and are as follows:

Pass: Good quality loan characterized by satisfactory liquidity; reasonable debt capacity and coverage; acceptable management in all critical positions and normal operating results for its peer group. The Company has grades 1 through 6 within the Pass category which reflect the increasing amount of attention paid to the individual loan because

of, among other things, trends in debt service coverage, management weaknesses, or collateral values.

Special mention: A loan that has potential weaknesses that deserves management's close attention. Although the loan is currently protected, if left uncorrected, potential weaknesses may result in deterioration of the loan's repayment prospects or in the borrower's future credit position. Potential weaknesses include: weakening financial condition; an unrealistic repayment program; inadequate sources of funds; lack of adequate collateral; credit information; or documentation. There is currently the capacity to meet interest and principal payments, but further adverse business, financial, or economic conditions may impair capacity or willingness to pay interest and repay principal.

Substandard: A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Although no loss of principal or interest is presently apparent, there is the distinct possibility that a partial loss of interest and/or principal will be sustained if the deficiencies are not corrected. There is a current identifiable vulnerability to default and the dependence upon favorable business, financial, or economic conditions to meet timely payment of interest and repayment of principal.

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**Doubtful:** A loan which has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to strengthen the asset, classification as an estimated loss is deferred until a more exact status is determined. Pending factors include: proposed merger, acquisition, liquidation, capital injection, perfecting liens on additional collateral, and refinancing plans.

**Loss:** Loans which are considered uncollectible and have been charged off. The Company has charged-off all loans classified as loss.

Loans classified as special mention, substandard or doubtful are evaluated for potential impairment. All impaired loans are placed on non-accrual status and are classified as substandard or doubtful.

The following table presents the composition of the residential mortgage and consumer loan portfolios by credit quality indicators:

## Mortgage and consumer credit exposure-credit risk profile by payment activity

March 31, 2011

	Performing	Non-performing (in thousands)	Total
Secured by one-to four-family residences	\$ 262,314	\$ 4,951	\$ 267,265
Home equity and second mortgage	47,520	630	48,150
Other	2,408	—	2,408
Total	\$ 312,242	\$ 5,581	\$ 317,823

## Mortgage and consumer credit exposure-credit risk profile by payment activity

December 31, 2010

Performing