

BankFinancial CORP
Form 10-Q
July 29, 2015

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 June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from _____ to _____
Commission File Number 0-51331

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

Maryland
(State or Other Jurisdiction
of Incorporation)

75-3199276
(I.R.S. Employer
Identification No.)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date. At July 27, 2015, there were 20,501,966 shares of Common Stock, \$0.01 par value, outstanding.

BANKFINANCIAL CORPORATION

Form 10-Q

June 30, 2015

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

	June 30, 2015	December 31, 2014
Assets		
Cash and due from other financial institutions	\$ 10,591	\$ 9,693
Interest-bearing deposits in other financial institutions	66,835	49,888
Cash and cash equivalents	77,426	59,581
Securities, at fair value	99,137	121,174
Loans receivable, net of allowance for loan losses: June 30, 2015, \$10,810 and December 31, 2014, \$11,990	1,156,667	1,172,356
Other real estate owned, net	5,539	6,358
Stock in Federal Home Loan Bank, at cost	6,257	6,257
Premises and equipment, net	33,502	34,286
Accrued interest receivable	3,885	3,926
Core deposit intangible	1,577	1,855
Bank owned life insurance	22,287	22,193
Deferred Taxes	29,145	31,643
Other assets	4,316	5,781
Total assets	\$ 1,439,738	\$ 1,465,410
Liabilities		
Deposits		
Noninterest-bearing	\$ 190,411	\$ 134,129
Interest-bearing	1,009,815	1,077,584
Total deposits	1,200,226	1,211,713
Borrowings	3,039	12,921
Advance payments by borrowers for taxes and insurance	11,829	11,489
Accrued interest payable and other liabilities	12,896	13,166
Total liabilities	1,227,990	1,249,289
Stockholders' equity		
Preferred Stock, \$0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 20,501,966 shares issued at June 30, 2015 and 21,101,966 shares issued at December 31, 2014	205	211
Additional paid-in capital	186,601	193,845
Retained earnings	34,106	31,584
Unearned Employee Stock Ownership Plan shares	(9,791	) (10,276)
Accumulated other comprehensive income	627	757
Total stockholders' equity	211,748	216,121
Total liabilities and stockholders' equity	\$ 1,439,738	\$ 1,465,410

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	\$ 11,836	\$ 12,085	\$ 23,659	\$ 23,784
Securities	257	287	584	583
Other	100	110	161	201
Total interest income	12,193	12,482	24,404	24,568
Interest expense				
Deposits	689	773	1,373	1,583
Borrowings	2	1	4	3
Total interest expense	691	774	1,377	1,586
Net interest income	11,502	11,708	23,027	22,982
Provision for (recovery of) loan losses	(488	) 957	(1,212	) 1,433
Net interest income after provision for (recovery of) loan losses	11,990	10,751	24,239	21,549
Noninterest income				
Deposit service charges and fees	476	472	931	911
Other fee income	601	593	1,136	1,114
Insurance commissions and annuities income	86	86	149	173
Gain on sale of loans, net	28	44	55	68
Loss on sale of securities (includes \$7 accumulated other comprehensive income reclassifications for unrealized net losses on available for sale securities for the six months ended June 30, 2014)	—	—	—	(7
Gain (loss) on disposition of premises and equipment, net	(1	) 3	(1	) 5
Loan servicing fees	96	104	186	208
Amortization and impairment of servicing assets	(32	) (44	) (57	) (80
Earnings on bank owned life insurance	45	61	94	125
Trust	183	170	357	334
Other	207	171	375	341
	1,689	1,660	3,225	3,192
Noninterest expense				
Compensation and benefits	5,278	5,596	10,859	11,554
Office occupancy and equipment	1,670	1,626	3,365	3,540
Advertising and public relations	222	304	563	466
Information technology	657	691	1,296	1,330
Supplies, telephone, and postage	385	384	796	775
Amortization of intangibles	136	143	278	292
Nonperforming asset management	108	97	199	201
Operations of other real estate owned	92	409	446	666
FDIC insurance premiums	262	470	497	949
Other	1,221	1,262	2,245	2,580
	10,031	10,982	20,544	22,353
Income before income taxes	3,648	1,429	6,920	2,388
Income tax expense	1,424	25	2,710	42

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Net income	\$2,224	\$1,404	\$4,210	\$2,346
Basic earnings per common share	\$0.11	\$0.07	\$0.21	\$0.12
Diluted earnings per common share	\$0.11	\$0.07	\$0.21	\$0.12
Weighted average common shares outstanding	20,009,358	20,145,809	20,138,045	20,122,362
Diluted weighted average common shares outstanding	20,013,573	20,160,050	20,142,205	20,136,405

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$2,224	\$1,404	\$4,210	\$2,346
Unrealized holding gain (loss) arising during the period	(128	) (56	) (210	) (26
Tax effect	50	—	80	—
Unrealized holding gain (loss) arising during the period, net of tax	(78	) (56	) (130	) (26
Reclassification adjustment for losses included in net income	—	—	—	7
Other comprehensive income (loss)	(78	) (56	) (130	) (19
Comprehensive income	\$2,146	\$1,348	\$4,080	\$2,327

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2014	\$211	\$193,594	\$(7,342)	\$(11,255)	\$ 419	\$175,627
Net income	—	—	2,346	—	—	2,346
Other comprehensive loss, net of tax	—	—	—	—	(19)	(19)
Nonvested stock awards-stock-based compensation expense	—	34	—	—	—	34
Cash dividends declared on common stock (\$0.01 per share)	—	—	(211)	—	—	(211)
ESOP shares earned	—	56	—	486	—	542
Balance at June 30, 2014	\$211	\$193,684	\$(5,207)	\$(10,769)	\$ 400	\$178,319
Balance at January 1, 2015	\$211	\$193,845	\$31,584	\$(10,276)	\$ 757	\$216,121
Net income	—	—	4,210	—	—	4,210
Other comprehensive loss, net of tax	—	—	—	—	(130)	(130)
Repurchase and retirement of common stock (600,000 shares)	(6)	(7,382)	—	—	—	(7,388)
Nonvested stock awards-stock-based compensation expense, net of tax	—	52	—	—	—	52
Cash dividends declared on common stock (\$0.08 per share)	—	—	(1,688)	—	—	(1,688)
ESOP shares earned	—	86	—	485	—	571
Balance at June 30, 2015	\$205	\$186,601	\$34,106	\$(9,791)	\$ 627	\$211,748

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended		
	June 30,		
	2015	2014	
Cash flows from operating activities			
Net income	\$4,210	\$2,346	
Adjustments to reconcile to net income to net cash from operating activities			
Provision for (recovery of) loan losses	(1,212	) 1,433
ESOP shares earned	571	542	
Stock-based compensation expense	52	34	
Depreciation and amortization	1,835	1,932	
Amortization of premiums and discounts on securities and loans	(151) (257)
Amortization of core deposit intangible	278	292	
Amortization and impairment of servicing assets	57	80	
Net change in net deferred loan origination costs	(322) (86)
Net gain on sale of other real estate owned	(80) (92)
Net gain on sale of loans	(55) (68)
Net loss on sale of securities	—	7	
Net loss (gain) on disposition of premises and equipment	1	(5)
Loans originated for sale	(2,324) (1,986)
Proceeds from sale of loans	2,379	2,054	
Other real estate owned valuation adjustments	236	77	
Net change in:			
Accrued interest receivable	41	190	
Earnings on bank owned life insurance	(94) (125)
Other assets	3,999	1,564	
Accrued interest payable and other liabilities	(270	) 773
Net cash from operating activities	9,151	8,705	
Cash flows from investing activities			
Securities			
Proceeds from maturities	40,011	29,194	
Proceeds from principal repayments	4,491	3,346	
Proceeds from sales of securities	—	3,663	
Purchases of securities	(22,702) (34,317)
Loans receivable			
Loan participations sold	3,350	—	
Principal payments on loans receivable	230,146	221,233	
Originated for investment	(218,045) (245,967)
Purchase of Federal Home Loan Bank of Chicago stock	—	(189)
Proceeds from sale of other real estate owned	1,830	2,067	
Purchase of premises and equipment, net	(282) (223)
Net cash from (used in) investing activities	38,799	(21,193)

Continued

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

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from financing activities		
Net change in deposits	\$(11,487	) \$(15,368
Net change in borrowings	(9,882	) 13
Net change in advance payments by borrowers for taxes and insurance	340	602
Stock repurchased	(7,388) —
Cash dividends paid on common stock	(1,688	) (211
Net cash used in financing activities	(30,105	) (14,964
Net change in cash and cash equivalents	17,845	(27,452
Beginning cash and cash equivalents	59,581	160,957
Ending cash and cash equivalents	\$77,426	\$ 133,505
Supplemental disclosures of cash flow information:		
Interest paid	\$1,413	\$1,592
Income taxes paid	26	114
Loans transferred to other real estate owned	1,167	3,460

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the “Bank”).

Principles of Consolidation: The interim unaudited consolidated financial statements include the accounts of and transactions of BankFinancial Corporation, the Bank, and the Bank’s wholly-owned subsidiaries, Financial Assurance Services, Inc. and BF Asset Recovery Corporation (collectively, “the Company”), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three- and six-month periods ended June 30, 2015 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2015. Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

Reclassifications: Certain reclassifications have been made in the prior period’s financial statements to conform them to the current period’s presentation.

These unaudited consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

In January 2014, the FASB amended existing guidance to clarify when a creditor should derecognize a loan receivable and recognize a collateral asset. An in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this standard did not have a material impact on the Company’s results of operation or financial position.

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update will become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

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

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income available to common stockholders	\$2,224	\$1,404	\$4,210	\$2,346
Average common shares outstanding	20,811,856	21,101,966	20,956,110	21,101,966
Less:				
Unearned ESOP shares	(792,816)	(937,585)	(804,864)	(957,463)
Unvested restricted stock shares	(9,682)	(18,572)	(13,201)	(22,141)
Weighted average common shares outstanding	20,009,358	20,145,809	20,138,045	20,122,362
Add - Net effect of dilutive stock options and unvested restricted stock	4,215	14,241	4,160	14,043
Diluted weighted average common shares outstanding	20,013,573	20,160,050	20,142,205	20,136,405
Basic earnings per common share	\$0.11	\$0.07	\$0.21	\$0.12
Diluted earnings per common share	\$0.11	\$0.07	\$0.21	\$0.12

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3 - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Certificates of deposit	\$69,652	\$—	\$—	\$69,652
Equity mutual fund	500	8	—	508
Mortgage-backed securities - residential	19,872	1,023	(48	) 20,847
Collateralized mortgage obligations - residential	8,070	47	(13	) 8,104
SBA-guaranteed loan participation certificates	26	—	—	26
	\$98,120	\$1,078	\$(61	) \$99,137
December 31, 2014				
Certificates of deposit	\$86,049	\$—	\$—	\$86,049
Equity mutual fund	500	9	—	509
Mortgage-backed securities - residential	23,433	1,218	(40	) 24,611
Collateralized mortgage obligations - residential	9,936	53	(13	) 9,976
SBA-guaranteed loan participation certificates	29	—	—	29
	\$119,947	\$1,280	\$(53	) \$121,174

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

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

	June 30, 2015	
	Amortized Cost	Fair Value
Due in one year or less	\$69,652	\$69,652
Equity mutual fund	500	508
Mortgage-backed securities - residential	19,872	20,847
Collateralized mortgage obligations - residential	8,070	8,104
SBA-guaranteed loan participation certificates	26	26
	\$98,120	\$99,137

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3 - SECURITIES (continued)

Sales of securities were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Proceeds	\$—	\$—	\$—	\$3,663
Gross gains	—	—	—	—
Gross losses	—	—	—	7

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2015						
Mortgage-backed securities - residential	\$—	\$—	\$1,761	\$(48)	\$1,761	\$(48)
Collateralized mortgage obligations - residential	—	—	1,527	(13)	1,527	(13)
	\$—	\$—	\$3,288	\$(61)	\$3,288	\$(61)
December 31, 2014						
Mortgage-backed securities - residential	\$—	\$—	\$2,126	\$(40)	\$2,126	\$(40)
Collateralized mortgage obligations - residential	—	—	1,847	(13)	1,847	(13)
	\$—	\$—	\$3,973	\$(53)	\$3,973	\$(53)

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

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

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

	June 30, 2015	December 31, 2014
One-to-four family residential real estate	\$170,146	\$180,337
Multi-family mortgage	480,585	480,349
Nonresidential real estate	224,995	234,500
Construction and land	1,442	1,885
Commercial loans	61,344	66,882
Commercial leases	225,676	217,143
Consumer	1,768	2,051
	1,165,956	1,183,147
Net deferred loan origination costs	1,521	1,199
Allowance for loan losses	(10,810	) (11,990
Loans, net	\$1,156,667	\$1,172,356

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

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
June 30, 2015						
One-to-four family residential real estate	\$—	\$1,844	\$1,844	\$3,830	\$166,316	\$170,146
Multi-family mortgage	15	4,442	4,457	3,164	477,421	480,585
Nonresidential real estate	50	2,933	2,983	3,632	221,363	224,995
Construction and land	—	56	56	—	1,442	1,442
Commercial loans	—	541	541	75	61,269	61,344
Commercial leases	—	903	903	—	225,676	225,676
Consumer	—	26	26	—	1,768	1,768
	\$65	\$10,745	\$10,810	\$10,701	\$1,155,255	1,165,956
Net deferred loan origination costs						1,521
Allowance for loan losses						(10,810
Loans, net) \$1,156,667

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

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

Activity in the allowance for loan losses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	\$11,576	\$14,181	\$11,990	\$14,154
Loans charged off:				
One-to-four family residential real estate	(99)	(290)	(202)	(346)
Multi-family mortgage	(161)	(594)	(180)	(684)
Nonresidential real estate	(252)	(186)	(263)	(766)
Construction and land	—	(1)	—	(1)
Commercial loans	—	—	(98)	(22)
Consumer	(4)	(4)	(8)	(10)
	(516)	(1,075)	(751)	(1,829)
Recoveries:				
One-to-four family residential real estate	219	97	279	108
Multi-family mortgage	4	6	8	20
Nonresidential real estate	9	264	25	284
Construction and land	—	8	6	258
Commercial loans	6	14	463	22
Commercial leases	—	—	1	—
Consumer	—	—	1	2
	238	389	783	694
Net recoveries (charge-offs)	(278)	(686)	32)	(1,135)
Provision for (recovery of) loan losses	(488)	957)	(1,212)	1,433)
Ending balance	\$10,810	\$14,452	\$10,810	\$14,452

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

Purchased Impaired Loans

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

Impaired loans

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

Loan principal balance

Less unapplied payments

Plus negative unapplied balance

Less escrow balance

Plus negative escrow balance

Plus unamortized net deferred loan costs

Less unamortized net deferred loan fees

Plus unamortized premium

Less unamortized discount

Less previous charge-offs

Plus recorded accrued interest

Less reserve for uncollected interest

= Recorded investment

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

					Three months ended June 30, 2015	Six months ended June 30, 2015		
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
June 30, 2015								
With no related allowance recorded:								
One-to-four family residential real estate	\$2,617	\$ 2,685	\$ 690	\$ —	\$2,632	\$ 6	\$2,636	\$ 11
One-to-four family residential real estate - non-owner occupied	1,131	1,132	57	—	1,321	11	1,368	25
Multi-family mortgage	2,220	2,076	330	—	1,637	10	1,823	21
Wholesale commercial lending	515	509	—	—	515	8	516	17
Nonresidential real estate	3,080	2,986	5	—	3,989	18	3,145	50
Commercial loans - secured	76	75	—	—	75	—	75	—
	9,639	9,463	1,082	—	10,169	53	9,563	124
With an allowance recorded:								

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Multi-family mortgage	554	547	—	15	1,619	18	1,862	25
Nonresidential real estate	639	628	67	50	2,381	20	2,477	20
	1,193	1,175	67	65	4,000	38	4,339	45
Total	\$10,832	\$ 10,638	\$ 1,149	\$ 65	\$14,169	\$ 91	\$13,902	\$ 169

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

Nonaccrual Loans

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

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
June 30, 2015			
One-to-four family residential real estate	\$3,275	\$2,700	\$—
One-to-four family residential real estate – non owner occupied	737	768	—
Multi-family mortgage	2,860	2,382	—
Nonresidential real estate	3,119	2,732	—
Commercial loans – secured	76	75	—
Consumer	1	1	—
	\$10,068	\$8,658	\$—
December 31, 2014			
One-to-four family residential real estate	\$4,793	\$4,210	\$—
One-to-four family residential real estate – non owner occupied	291	198	—
Multi-family mortgage	5,638	4,481	—
Nonresidential real estate	4,023	3,245	—
Commercial loans – secured	76	76	—
Consumer	3	3	—
	\$14,824	\$12,213	\$—

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The Company's reserve for uncollected loan interest was \$266,000 and \$464,000 at June 30, 2015 and December 31, 2014, respectively. When a loan is on non-accrual status and the ultimate collectability of the total principal of the loan is in doubt, all payments are applied to principal under the cost recovery method. Alternatively, when a loan is on non-accrual status but there is doubt concerning only the ultimate collectability of interest, contractual interest is credited to interest income only when received, under the cash basis method pursuant to the provisions of FASB ASC 310-10, as applicable. In all cases, the average balances are calculated based on the month-end balances of the financing receivables within the period reported pursuant to the provisions of FASB ASC 310-10, as applicable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

Past Due Loans

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	\$103	\$87	\$2,398	\$2,588	\$120,526	\$123,114
One-to-four family residential real estate - non-owner occupied	3	245	768	1,016	45,255	46,271
Multi-family mortgage	—	304	1,666	1,970	325,571	327,541
Wholesale commercial lending	—	—	—	—	148,743	148,743
Nonresidential real estate	537	—	1,812	2,349	219,587	221,936
Construction	—	—	—	—	42	42
Land	—	—	—	—	1,389	1,389
Commercial loans:						
Secured	—	—	75	75	13,595	13,670
Unsecured	—	—	—	—	2,855	2,855
Municipal	—	—	—	—	1,933	1,933
Warehouse lines	—	—	—	—	13,011	13,011
Health care	—	—	—	—	15,923	15,923
Aviation	—	—	—	—	1,034	1,034
Other	—	—	—	—	13,099	13,099
Commercial leases:						
Investment rated commercial leases	68	—	—	68	164,835	164,903
Below investment grade	—	—	—	—	9,293	9,293
Non-rated	—	—	—	—	41,680	41,680
Lease pools	—	—	—	—	11,202	11,202
Consumer	1	—	1	2	1,775	1,777
	\$712	\$636	\$6,720	\$8,068	\$1,151,348	\$1,159,416

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

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

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

Troubled Debt Restructurings

The Company evaluates loan extensions or modifications in accordance with FASB ASC 310-40 with respect to the classification of the loan as a TDR. In general, if the Company grants a loan extension or modification to a borrower for other than an insignificant period of time that includes a below-market interest rate, principal forgiveness, payment forbearance or other concession intended to minimize the economic loss to the Company, the loan extension or loan modification is classified as a TDR. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal then due and payable, management measures any impairment on the restructured loan in the same manner as for impaired loans as noted above.

The Company had \$2.7 million of TDRs at June 30, 2015, compared to \$3.0 million at December 31, 2014. There were no specific valuation reserves allocated to those loans at June 30, 2015 and \$38,000 in specific valuation reserves allocated at December 31, 2014. The Company had no outstanding commitments to borrowers whose loans were classified as TDRs at either date.

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

NOTE 4 - LOANS RECEIVABLE (continued)

The following table presents loans classified as TDRs:

	June 30, 2015	December 31, 2014
One-to-four family residential real estate	\$1,578	\$1,917
Multi-family mortgage	515	510
Troubled debt restructured loans – accrual loans	2,093	2,427
One-to-four family residential real estate	291	230
Multi-family mortgage	333	346
Troubled debt restructured loans – nonaccrual loans	624	576
Total troubled debt restructured loans	\$2,717	\$3,003

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

	Three Months Ended June 30, 2015		2014		Due to permanent reduction in recorded investment	Total
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans			Pre-Modification outstanding recorded investment
One-to-four family residential real estate —		\$ —	\$ —	1	\$ 19	\$ 19
		Due to reduction in interest rate	Due to extension of maturity date			
For the Three Months Ended June 30, 2015		\$ —	\$ —		\$ —	\$ —
One-to-four family residential real estate		\$ —	\$ —		\$ —	\$ —
For the Three Months Ended June 30, 2014		\$ 19	\$ —		\$ —	\$ 19
One-to-four family residential real estate		\$ 19	\$ —		\$ —	\$ 19

The TDRs had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs for the three months ended June 30, 2015 and June 30, 2014.

Six Months Ended June 30, 2015

	Six Months Ended June 30, 2015		2014	
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans	Pre-Modification