Territorial Bancorp Inc.
Form 10-Q
November 08, 2018
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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 transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

Maryland	26-4674701
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

1132 Bishop Street, Suite 2200, Honolulu, Hawaii	96813
(Address of Principal Executive Offices)	(Zip Code)

(808) 946-1400

(Registrant’s telephone number, including area code)

Not Applicable

(Former name, former address and formal fiscal year, 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 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: 9,653,455 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of October 31, 2018.

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 24,101	$ 32,089
Investment securities available for sale	2,565	2,851
Investment securities held to maturity, at amortized cost (fair value of $368,237 and $406,663 at September 30, 2018 and December 31, 2017, respectively)	381,159	404,792
Loans held for sale	—	403
Loans receivable, net	1,546,734	1,488,971
Federal Home Loan Bank stock, at cost	6,045	6,541
Federal Reserve Bank stock, at cost	3,106	3,103
Accrued interest receivable	5,410	5,142
Premises and equipment, net	5,005	5,721
Bank-owned life insurance	44,848	44,201
Income taxes receivable	713	1,571
Deferred income tax assets, net	3,727	4,609
Prepaid expenses and other assets	2,639	3,852
Total assets	$ 2,026,052	$ 2,003,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,643,393	$ 1,597,295
Advances from the Federal Home Loan Bank	91,000	107,200
Securities sold under agreements to repurchase	30,000	30,000
Accounts payable and accrued expenses	20,371	26,390
Income taxes payable	1,415	1,483
Advance payments by borrowers for taxes and insurance	4,038	6,624
Total liabilities	1,790,217	1,768,992
Stockholders' Equity:		
	—	—

Preferred stock, $0.01 par value; authorized 50,000,000 shares, no shares issued or outstanding		
Common stock, $0.01 par value; authorized 100,000,000 shares; issued and outstanding 9,681,579 and 9,915,058 shares at September 30, 2018 and December 31, 2017, respectively	97	99
Additional paid-in capital	65,863	73,050
Unearned ESOP shares	(5,016)	(5,383)
Retained earnings	181,799	172,782
Accumulated other comprehensive loss	(6,908)	(5,694)
Total stockholders’ equity	235,835	234,854
Total liabilities and stockholders’ equity	$ 2,026,052	$ 2,003,846

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans	$ 15,038	$ 13,837	$ 44,829	$ 40,877
Investment securities	3,032	3,169	9,283	9,328
Other investments	208	171	582	530
Total interest income	18,278	17,177	54,694	50,735
Interest expense:				
Deposits	2,899	2,033	8,040	5,459
Advances from the Federal Home Loan Bank	493	264	1,371	779
Securities sold under agreements to repurchase	125	221	376	654
Total interest expense	3,517	2,518	9,787	6,892
Net interest income	14,761	14,659	44,907	43,843
Provision (reversal of provision) for loan losses	(50)	54	19	2
Net interest income after provision (reversal of provision) for loan losses	14,811	14,605	44,888	43,841
Noninterest income:				
Service fees on loan and deposit accounts	470	427	1,372	1,490
Income on bank-owned life insurance	216	228	647	681
Gain on sale of investment securities	—	150	45	431
Gain on sale of loans	8	28	61	154
Other	52	76	200	234
Total noninterest income	746	909	2,325	2,990
Noninterest expense:				
Salaries and employee benefits	5,655	5,169	16,798	15,152
Occupancy	1,599	1,529	4,689	4,439
Equipment	1,061	882	3,000	2,630
Federal deposit insurance premiums	150	152	457	448
Other general and administrative expenses	1,038	1,029	3,326	3,553
Total noninterest expense	9,503	8,761	28,270	26,222
Income before income taxes	6,054	6,753	18,943	20,609
Income taxes	1,268	2,580	4,374	7,814
Net income	$ 4,786	$ 4,173	$ 14,569	$ 12,795

Basic earnings per share	$ 0.52	$ 0.45	$ 1.57	$ 1.38
Diluted earnings per share	$ 0.51	$ 0.44	$ 1.54	$ 1.34
Cash dividends declared per common share	$ 0.22	$ 0.30	$ 0.72	$ 0.70
Basic weighted-average shares outstanding	9,212,913	9,280,018	9,238,827	9,250,537
Diluted weighted-average shares outstanding	9,377,403	9,521,201	9,424,992	9,535,875

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 4,786	$ 4,173	$ 14,569	$ 12,795
Change in unrealized loss on securities, net of tax	(19)	12	(79)	(1)
Other comprehensive income (loss), net of tax	(19)	12	(79)	(1)
Comprehensive income	$ 4,767	$ 4,185	$ 14,490	$ 12,794

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at December 31, 2016	$ 98	$ 71,914	$ (5,872)	$ 168,962	$ (5,316)	$ 229,786
Net income	—	—	—	12,795	—	12,795
Other comprehensive loss	—	—	—	—	(1)	(1)
Cash dividends declared ($0.70 per share)	—	—	—	(6,471)	—	(6,471)
Share-based compensation	—	48	—	—	—	48
Allocation of 36,699 ESOP shares	—	777	367	—	—	1,144
Repurchase of 91,456 shares of common stock	(1)	(2,905)	—	—	—	(2,906)
Exercise of 166,837 options for common stock	2	2,895	—	—	—	2,897
Balances at September 30, 2017	$ 99	$ 72,729	$ (5,505)	$ 175,286	$ (5,317)	$ 237,292
Balances at December 31, 2017	$ 99	$ 73,050	$ (5,383)	$ 172,782	$ (5,694)	$ 234,854
Net income	—	—	—	14,569	—	14,569
Other comprehensive loss	—	—	—	—	(79)	(79)
Reclassification of deferred taxes	—	—	—	1,135	(1,135)	—
Cash dividends declared ($0.72 per share)	—	—	—	(6,687)	—	(6,687)
Share-based compensation	—	256	—	—	—	256
Allocation of 36,699 ESOP shares	—	751	367	—	—	1,118
Repurchase of 306,888 shares of common stock	(3)	(9,391)	—	—	—	(9,394)
Exercise of 69,008 options for common stock	1	1,197	—	—	—	1,198
Balances at September 30, 2018	$ 97	$ 65,863	$ (5,016)	$ 181,799	$ (6,908)	$ 235,835

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 14,569	$ 12,795
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	19	2
Depreciation and amortization	946	816
Deferred income tax expense	911	733
Amortization of fees, discounts, and premiums, net	(324)	(339)
Origination of loans held for sale	(7,996)	(19,023)
Proceeds from sales of loans held for sale	8,460	20,284
Gain on sale of loans, net	(61)	(154)
Net gain on sale of real estate owned	(4)	—
Gain on sale of investment securities held to maturity	(45)	(431)
Net loss on disposal of premises and equipment	3	25
ESOP expense	1,118	1,144
Share-based compensation expense	256	48
Increase in accrued interest receivable	(268)	(253)
Net increase in bank-owned life insurance	(647)	(682)
Net (increase) decrease in prepaid expenses and other assets	1,213	(1,722)
Net increase (decrease) in accounts payable and accrued expenses	(6,044)	1,083
Net decrease in advance payments by borrowers for taxes and insurance	(2,586)	(1,938)
Net decrease in income taxes receivable	858	119
Net increase (decrease) in income taxes payable	(68)	77
Net cash from operating activities	10,310	12,584
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(14,983)	(51,894)
Purchases of investment securities available for sale	—	(2,970)
Principal repayments on investment securities held to maturity	34,270	40,925
Principal repayments on investment securities available for sale	171	50
Proceeds from sale of investment securities held to maturity	4,462	7,446
Loan originations, net of principal repayments on loans receivable	(57,568)	(98,468)
Purchases of Federal Home Loan Bank stock	(4,192)	(1,609)
Proceeds from redemption of Federal Home Loan Bank stock	4,688	1,541
Purchases of Federal Reserve Bank stock	(3)	(8)
Proceeds from sale of real estate owned	50	—
Purchases of premises and equipment	(233)	(2,172)

Net cash from investing activities	(33,338)	(107,159)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Net increase in deposits	$ 46,098	$ 78,167
Proceeds from advances from the Federal Home Loan Bank	91,000	38,525
Repayments of advances from the Federal Home Loan Bank	(107,200)	(38,525)
Purchases of Fed Funds	10	10
Sales of Fed Funds	(10)	(10)
Repurchases of common stock	(8,196)	(9)
Cash dividends paid	(6,662)	(6,471)
Net cash from financing activities	15,040	71,687
Net decrease in cash and cash equivalents	(7,988)	(22,888)
Cash and cash equivalents at beginning of the period	32,089	61,273
Cash and cash equivalents at end of the period	$ 24,101	$ 38,385
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 10,122	$ 6,698
Income taxes	2,673	6,956
Supplemental disclosure of noncash investing and financing activities:		
Company stock acquired through stock swap and net settlement transactions	$ 1,198	$ 2,897
Loans transferred to real estate owned	46	—
Dividends declared, not yet paid	25	—

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Territorial Bancorp Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company's consolidated financial statements and notes thereto filed as part of the Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments necessary for a fair presentation have been made and consist only of normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

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(2) Organization

In 2009, Territorial Savings Bank completed a conversion from a mutual holding company to a stock holding company. As part of the conversion, Territorial Mutual Holding Company and Territorial Savings Group, Inc., the former holding companies for Territorial Savings Bank, ceased to exist as separate legal entities, and Territorial Bancorp Inc. became the holding company for Territorial Savings Bank. Upon completion of the conversion and reorganization, a special "liquidation account" was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion.

In 2014, Territorial Savings Bank converted from a federal savings bank to a Hawaii state-chartered savings bank and became a member of the Federal Reserve System.

(3) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended the Revenue Recognition topic of the FASB Accounting Standards Codification (ASC). The amendment seeks to clarify the principles for recognizing revenue as well as to develop common revenue standards for U.S. generally accepted accounting principles and International Financial Reporting Standards. The Company reviewed all revenue sources to determine if the sources are in scope for this guidance. Net interest income from financial assets and liabilities are explicitly excluded from the scope of the amendment. The Company's overall assessment of key in-scope revenue sources include service charges on deposit accounts, rental income from safe deposit boxes and commissions on insurance and annuity sales. Based on the Company's analysis of these revenue sources, including the amount of revenue, the timing of services rendered and timing of payment for these services, there is no material change in the timing of revenue recognition under the amendment. The Company adopted this amendment as of January 1, 2018, using the modified retrospective approach. Since there was no material impact on the timing of revenue recognition, no adjustment to beginning retained earnings was deemed necessary. See Note 14, Revenue Recognition, for further information.

In January 2016, the FASB amended the Financial Instruments – Overall topic of the FASB ASC. The amendment addresses several aspects of recognition, measurement, presentation and disclosure of financial instruments. Included are: (a) a requirement to measure equity investments at fair value, with changes in fair value recognized in net income, (b) a simplification of the impairment assessment of equity investments without readily determinable fair values, (c) the elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet, and (d) a requirement to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The Company adopted this amendment as of January 1, 2018, and there was no material effect on its consolidated financial statements.

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In February 2016, the FASB amended the Leases topic of the FASB ASC. The primary effects of the amendment will be to recognize lease assets and lease liabilities on the balance sheet and to disclose certain information about leasing arrangements. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has several lease agreements for branch locations and equipment that will require recognition on the consolidated balance sheets upon adoption of the amendment. The Company will continue to evaluate the effects that the adoption of this amendment will have on its consolidated financial statements.

In June 2016, the FASB amended various sections of the FASB ASC related to the accounting for credit losses on financial instruments. The amendment changes the threshold for recognizing losses from a “probable” to an “expected” model. The new model is referred to as the current expected credit loss model and applies to loans, leases, held-to-maturity investments, loan commitments and financial guarantees. The amendment requires the measurement of all expected credit losses for financial assets as of the reporting date (including historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures that will help financial statement users understand the estimates and judgments used in estimating credit losses and evaluating the credit quality of an organization’s portfolio. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company will apply the amendment’s provisions as a cumulative-effect adjustment to retained earnings at the beginning of the first period the amendment is effective. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements by gathering the information that is necessary to make the calculations required by the amendment. This may result in increased credit losses on financial instruments recorded in the consolidated financial statements.

In March 2017, the FASB amended the Compensation – Retirement Benefits topic of the FASB ASC. The amendment requires the service cost component of net benefit cost to be reported in the same line item as other compensation costs arising from employee services. It also requires the other components of net benefit cost to be reported in the income statement separately from the service cost component. The Company adopted this amendment as of January 1, 2018, and there was no material effect on its consolidated financial statements.

In February 2018, the FASB amended the Income Statement – Reporting Comprehensive Income topic of the FASB ASC. Prior to the adoption of the amendment, deferred taxes previously included in accumulated other comprehensive income were not allowed to be adjusted for changes in tax rates. This amendment allows the reclassification of the tax effects resulting from the change in the federal corporate tax rate in the Tax Cuts and Jobs Act, which was passed in December 2017, from accumulated other comprehensive income to retained earnings. The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any period for which financial statements have not yet been issued. The Company adopted this amendment during the first quarter of 2018 with the reclassification of $1.1 million of deferred taxes from accumulated other comprehensive income to retained earnings.

In August 2018, the FASB amended the Fair Value Measurement topic of the FASB ASC. The amendment affects disclosures only, and includes additions, deletions and modifications of the disclosures of assets and liabilities reported in the fair value hierarchy. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Entities are allowed to early adopt any removed or modified disclosures while delaying adoption of any added disclosures until the effective date. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In August 2018, the FASB amended the Compensation – Retirement Benefits topic of the FASB ASC. The amendment affects disclosures related to defined benefit pension or other post retirement plans and includes additions, deletions and clarifications of disclosures. The amendment is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

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(4) Cash and Cash Equivalents

The table below presents the balances of cash and cash equivalents:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Cash and due from banks	$ 9,421	$ 9,114
Interest-earning deposits in other banks	14,680	22,975
Cash and cash equivalents	$ 24,101	$ 32,089

Interest-earning deposits in other banks consist primarily of deposits at the Federal Reserve Bank of San Francisco.

(5) Investment Securities

The amortized cost and fair values of investment securities are as follows:

	Amortized	Gross Unrealized		Estimated
(Dollars in thousands)	Cost	Gains	Losses	Fair Value
September 30, 2018:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 2,698	$ —	$ (133)	$ 2,565
Total	$ 2,698	$ —	$ (133)	$ 2,565
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 381,084	$ 1,231	$ (14,820)	$ 367,495
Trust preferred securities	75	667	—	742
Total	$ 381,159	$ 1,898	$ (14,820)	$ 368,237
December 31, 2017:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 2,870	$ —	$ (19)	$ 2,851
Total	$ 2,870	$ —	$ (19)	$ 2,851

Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 404,365	$ 6,056	$ (4,603)	$ 405,818
Trust preferred securities	427	418	—	845
Total	$ 404,792	$ 6,474	$ (4,603)	$ 406,663

The amortized cost and estimated fair value of investment securities by maturity date at September 30, 2018 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are

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allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due within 5 years	$ —	$ —
Due after 5 years through 10 years	—	—
Due after 10 years	2,698	2,565
Total	$ 2,698	$ 2,565
Held-to-maturity:		
Due within 5 years	$ 5	$ 5
Due after 5 years through 10 years	73	73
Due after 10 years	381,081	368,159
Total	$ 381,159	$ 368,237

Realized gains and losses and the proceeds from sales of held-to-maturity securities are shown in the table below. All sales of securities were U.S. government-sponsored mortgage-backed securities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Proceeds from sales	$ —	$ 2,393	$ 4,462	$ 7,446
Gross gains	—	150	45	431
Gross losses	—	—	—	—

The sale of these mortgage-backed securities, for which the Company had already collected a substantial portion of the outstanding purchased principal (at least 85%), is in accordance with the Investments – Debt and Equity Securities topic of the FASB ASC and does not taint management's assertion of intent to hold remaining securities in the held-to-maturity portfolio to maturity.

Investment securities with amortized costs of $331.9 million and $287.2 million at September 30, 2018 and December 31, 2017, respectively, were pledged to secure deposits made by state and local governments, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities which were in an unrealized loss position at September 30, 2018 and December 31, 2017. The Company does not intend to sell held-to-maturity and available-for-sale securities

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until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

	Less Than 12 Months		12 Months or Longer		Total		
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
(Dollars in thousands)							
September 30, 2018:							
Available-for-sale:							
U.S. government-sponsored mortgage-backed securities	$ —	$ —	$ 2,565	$ (133)	1	$ 2,565	$ (133)
Held-to-maturity:							
U.S. government-sponsored mortgage-backed securities	$ 140,735	$ (3,729)	$ 160,018	$ (11,091)	95	$ 300,753	$ (14,820)
December 31, 2017:							
Available-for-sale:							
U.S. government-sponsored mortgage-backed securities	$ 2,851	$ (19)	$ —	$ —	1	$ 2,851	$ (19)
Held-to-maturity:							
U.S. government-sponsored mortgage-backed securities	$ 41,163	$ (299)	$ 140,200	$ (4,304)	49	$ 181,363	$ (4,603)

Mortgage-Backed Securities. The unrealized losses on the Company’s investment in mortgage-backed securities were caused by increases in market interest rates subsequent to purchase. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2018 and December 31, 2017.

Trust Preferred Securities. At September 30, 2018, the Company owned one trust preferred security, PreTSL XXIII. PreTSL XXIII has an amortized cost and a remaining cost basis of $75,000 at September 30, 2018. The trust preferred security represents an investment in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. This security is classified in the Company's held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only seven transactions have occurred over the past 81 months in the same tranche of securities that we own and no new issuances of pooled trust preferred securities have occurred since 2007. We used a discounted cash flow model to determine whether this security is other-than-temporarily impaired. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates, estimated deferral and default rates on collateral, and estimated cash flows.

Based on the Company's review, the Company's investment in PreTSL XXIII did not incur additional impairment during the nine months ended September 30, 2018 and there is no accumulated other comprehensive loss related to noncredit factors.

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The table below provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold:

(Dollars in thousands)	Nine Months Ended September 30, 2018	2017
Balance at the beginning of the period	$ 2,403	$ 2,403
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Credit losses on debt securities which were sold	—	—
Balance at the end of the period	$ 2,403	$ 2,403

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 1,500,015	$ 1,444,625
Multi-family residential	12,080	10,799
Construction, commercial and other	23,893	21,787
Home equity loans and lines of credit	12,014	12,882
Total real estate loans	1,548,002	1,490,093
Other loans:		
Loans on deposit accounts	264	274
Consumer and other loans	4,187	4,340
Total other loans	4,451	4,614
Less:		
Net unearned fees and discounts	(3,160)	(3,188)
Allowance for loan losses	(2,559)	(2,548)
Total unearned fees, discounts and allowance for loan losses	(5,719)	(5,736)
Loans receivable, net	$ 1,546,734	$ 1,488,971

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The table below presents the activity in the allowance for loan losses by portfolio segment:

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended September 30, 2018:						
Balance, beginning of period	$ 1,760	$ 547	$ 1	$ 45	$ 261	$ 2,614
Provision (reversal of provision) for loan losses	—	(47)	—	3	(6)	(50)
	1,760	500	1	48	255	2,564
Charge-offs	—	—	—	(7)	—	(7)
Recoveries	—	—	—	2	—	2
Net charge-offs	—	—	—	(5)	—	(5)
Balance, end of period	$ 1,760	$ 500	$ 1	$ 43	$ 255	$ 2,559
Nine months ended September 30, 2018:						
Balance, beginning of period	$ 1,721	$ 539	$ 1	$ 55	$ 232	$ 2,548
Provision (reversal of provision) for loan losses	33	(39)	—	2	23	19
	1,754	500	1	57	255	2,567
Charge-offs	—	—	—	(19)	—	(19)
Recoveries	6	—	—	5	—	11
Net recoveries (charge-offs)	6	—	—	(14)	—	(8)
Balance, end of period	$ 1,760	$ 500	$ 1	$ 43	$ 255	$ 2,559

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended September 30, 2017:						
Balance, beginning of period	$ 1,602	$ 556	$ 1	$ 53	$ 245	$ 2,457
Provision (reversal of provision) for loan losses	30	16	—	18	(10)	54
	1,632	572	1	71	235	2,511
Charge-offs	—	—	—	(12)	—	(12)
Recoveries	—	—	—	—	—	—
Net charge-offs	—	—	—	(12)	—	(12)
Balance, end of period	$ 1,632	$ 572	$ 1	$ 59	$ 235	$ 2,499
Nine months ended September 30, 2017:						
Balance, beginning of period	$ 1,594	$ 519	$ 2	$ 115	$ 222	$ 2,452

Provision (reversal of provision) for loan losses	(26)	53	(1)	(37)	13	2
	1,568	572	1	78	235	2,454
Charge-offs	(11)	—	—			