NORTHEAST COMMUNITY BANCORP INC
Form 10-Q
May 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

o 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: 0-51852

Northeast Community Bancorp, Inc.
(Exact name of registrant as specified in its charter)

United States of America (State or other jurisdiction of incorporation or organization)	06-1786701 (I.R.S. Employer Identification No.)
325 Hamilton Avenue, White Plains, New York (Address of principal executive offices)	10601 (Zip Code)

(914) 684-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former 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 T 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, a non-accelerated filer, or a smaller reporting company. See definition 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 x
(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 of the Exchange Act). Yes £ No T

As of May 14, 2010, there were 13,225,000 shares of the registrant's common stock outstanding.

NORTHEAST COMMUNITY BANCORP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	March 31, 2010	December 31, 2009
	(In thousands, except share and per share data)	
ASSETS		
Cash and amounts due from depository institutions	$3,275	$3,441
Interest-bearing deposits	51,697	85,277
Cash and cash equivalents	54,972	88,718
Certificates of deposit	3,735	8,715
Securities available for sale	175	176
Securities held to maturity	34,216	11,845
Loans receivable, net of allowance for loan losses of $6,374 and $6,733, respectively	387,857	386,266
Premises and equipment, net	8,039	8,220
Federal Home Loan Bank of New York stock, at cost	2,277	2,277
Bank owned life insurance	15,675	10,522
Accrued interest receivable	1,971	1,924
Goodwill	1,310	1,310
Intangible assets	573	588
Real estate owned	636	636
Other assets	5,752	6,079
Total assets	$517,188	$527,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$8,934	$11,594
Interest bearing	358,670	367,924
Total deposits	367,604	379,518
Advance payments by borrowers for taxes and insurance	4,555	3,153
Federal Home Loan Bank advances	35,000	35,000
Accounts payable and accrued expenses	1,853	1,829
Note payable	332	328
Total liabilities	409,344	419,828
Commitments and contingencies		—

Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 19,000,000 shares authorized; issued and outstanding: 13,225,000 shares	132	132
Additional paid-in capital	57,474	57,496
Unearned Employee Stock Ownership Plan ("ESOP") shares	(4,083)	(4,147)
Retained earnings	54,478	54,121
Accumulated comprehensive loss	(157)	(154)
Total stockholders' equity	107,844	107,448
Total liabilities and stockholders' equity	$517,188	$527,276

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
	(In thousands, except per share data)	
INTEREST INCOME:		
Loans	$5,767	$5,832
Interest-earning deposits	48	31
Securities – taxable	202	42
Total Interest Income	6,017	5,905
INTEREST EXPENSE:		
Deposits	2,010	1,980
Borrowings	297	334
Total Interest Expense	2,307	2,314
Net Interest Income	3,710	3,591
PROVISION FOR LOAN LOSSES	34	50
Net Interest Income after Provision for Loan Losses	3,676	3,541
NON-INTEREST INCOME:		
Other loan fees and service charges	58	83
Impairment loss on equity security	-	(4)
Loss on disposition of equipment	(7)	-
Earnings on bank owned life insurance	153	86
Investment advisory fees	180	168
Other	4	–
Total Non-Interest Income	388	333
NON-INTEREST EXPENSES:		
Salaries and employee benefits	1,783	1,534
Net occupancy expense	333	285
Equipment	137	155
Outside data processing	208	198
Advertising	22	66
Real estate owned expense (income)	(1)	110
FDIC insurance premiums	134	11
Other	679	668

Total Non-Interest Expenses	3,295	3,027
Income before Provision for Income Taxes	769	847
PROVISION FOR INCOME TAXES	246	341
Net Income	$523	$506
Net Income per Common Share – Basic	$.04	$.04
Weighted Average Number of Common Shares Outstanding – Basic	12,814	12,787
Dividends paid per common share	$.03	$.03

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
Three Months Ended March 31, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at December 31, 2008	$132	$57,560	$(4,407)	$57,399	$ (182)	$ 110,502	
Comprehensive income:							
Net income	-	-	-	506	-	506	$ 506
Unrealized loss on securities available for sale, net of taxes of $-	-	-	-	-	5	5	5
Prior Service Cost and Actuarial Loss– DRP, net of taxes of $3	-	-	-	-	4	4	4
Cash dividend declared ($.03 per share) to minority stockholders	-	-	-	(165)	-	(165)	-
ESOP shares earned	-	(18)	65	-	-	47	
Total comprehensive income							$ 515
Balance at March 31, 2009	$132	$57,542	$(4,342)	$57,740	$ (173)	$ 110,899	
Balance at December 31, 2009	$132	$57,496	$(4,147)	$54,121	$(154)	$107,448	
Comprehensive income:							
Net income	-	-	-	523	-	523	$523
Unrealized gain on securities available for sale,	-	-	-	-	1	1	1

net of taxes of $1							
Prior Service Cost and Actuarial Loss– DRP, net of taxes of $11	-	-	-	-	(4)	(4)	(4)
Cash dividend declared ($.03 per share) to minority stockholders	-	-	-	(166)	-	(166)	-
ESOP shares earned	-	(22)	64		-	42	
Total comprehensive income							$520
Balance at March 31, 2010	$132	$57,474	$(4,083)	$54,478	$(157)	$107,844	

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 523	$ 506
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of securities premiums and discounts, net	5	1
Provision for loan losses	34	50
Provision for depreciation	200	154
Net (accretion) amortization of deferred loan discounts, fees and costs	28	(79)
Amortization other	19	21
Deferred income taxes	217	(1,822)
Impairment loss on securities	-	4
Loss on disposal of equipment	7	3
Loss on sale of real estate owned	-	86
Earnings on bank owned life insurance	(153)	(86)
(Increase) in accrued interest receivable	(47)	(72)
(Increase) in other assets	107	(664)
(Decrease) in accrued interest payable	-	(1)
Increase (decrease) increase in other accounts payable and accrued expenses	22	(97)
ESOP shares earned	42	47
Net Cash Provided by (Used in) Operating Activities	$ 1,004	$ (1,949)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of loans	-	(1,529)
Net (increase) in loans	(1,653)	(19,364)
Purchase of securities held-to-maturity	(22,568)	-
Principal repayments on securities available-for-sale	3	1
Principal repayments on securities held-to-maturity	192	71
Proceeds from maturities of certificates of deposit	4,980	-
Purchase of Federal Home Loan Bank of New York Stock	-	(450)
Purchases of premises and equipment	(26)	(3,400)
Proceeds from sale of real estate owned	-	283
Capitalized costs on real estate owned	-	(64)
Purchase of bank owned life insurance	(5,000)	(1,200)
Net Cash (Used in) Investing Activities	$ (24,072)	$ (25,652)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(11,914)	27,383
Proceeds from FHLB of New York advances	-	10,000
(Decrease) increase in advance payments by borrowers for taxes	1,402	(1,981)

and insurance		
Cash dividends paid to minority stockholders	(166)	(165)
Net Cash (Used in) Provided by Financing Activities	(10,678)	35,237
Net (Decrease) Increase in Cash and Cash Equivalents	(33,746)	7,636
Cash and Cash Equivalents - Beginning	88,718	36,534
Cash and Cash Equivalents - Ending	$ 54,972	$ 44,170
SUPPLEMENTARY CASH FLOWS INFORMATION		
Income taxes paid	$ -	$ 2,613
Interest paid	$ 2,307	$ 2,315

See Notes to Consolidated Financial Statements

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NORTHEAST COMMUNITY BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the "Company") is a Federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the "Bank"), in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly owned subsidiary, New England Commercial Properties, LLC ("NECP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of March 31, 2010, NECP had title to one multi-family property located in Newark, New Jersey. The Bank accepted a deed-in-lieu of foreclosure and transferred this property to NECP on November 19, 2008. The Bank subsequently completed foreclosure action on two gasoline stations, took title to the two properties in April 2010, and transferred these two properties to NECP.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders' equity and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2009 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders' equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after March 31, 2010 and through the date these consolidated financial statements were issued.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and,

during the three-month periods ended March 31, 2010 and 2009, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

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NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2009 and March 31, 2010, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2009, the Company had allocated 77,763 shares to participants, and an additional 25,921 shares had been committed to be released. As of March 31, 2010, the Company had allocated 103,684 shares to participants, and an additional 6,480 shares had committed to be released. The Company recognized compensation expense of $42,000 and $47,000 during the three-month periods ended March 31, 2010 and 2009, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN ("DRP")

Periodic expenses for the Company's DRP were as follows:

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Service cost	$ 14	$ 13
Interest cost	10	9
Amortization of Prior Service Cost	5	5
Amortization of actuarial loss	2	2
Total	$ 31	$ 29

This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The amortization of prior service cost and actuarial loss in the three-month periods ended March 31, 2010 and 2009 is also reflected as a reduction in other comprehensive income during the period.

NOTE 5 – INVESTMENTS

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2010				
Securities available for sale:				
Mortgage-backed securities-GSE	$ 172	$ 3	$ -	$ 175
Total	$ 172	$ 3	$ -	$ 175
Securities held to maturity:				
Mortgage-backed securities-GSE	$ 16,751	$ 61	$ 11	$ 16,801
U.S. Government agencies	12,401	-	115	12,286

Collateralized mortgage obligations-GSE		5,061		60		-		5,121
Private pass-through securities		3		-		-		3
Total	$	34,216	$	121	$	126	$	34,211
December 31, 2009								
Securities available for sale:								
Mortgage-backed securities-GSE	$	174	$	2	$	-	$	176
Total	$	174	$	2	$	-	$	176
Securities held to maturity:								
Mortgage-backed securities-GSE	$	11,796	$	30	$	1	$	11,825
Collateralized mortgage obligations-GSE		46		1		-		47
Private pass-through securities		3		-		-		3
Total	$	11,845	$	31	$	1	$	11,875

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Contractual final maturities of mortgage-backed securities available for sale were as follows:

	March 31, 2010	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ -	$ -
Due after ten years	172	175
	$ 172	$ 175

Contractual final maturities of mortgage-backed securities held to maturity were as follows:

	March 31, 2010	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ -	$ -
Due after one but within five years	26	26
Due after five but within ten years	349	354
Due after ten years	21,440	21,545
	$ 21,815	$ 21,925

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

Contractual final maturities of U.S. Government Agency securities held to maturity were as follows:

	March 31, 2010	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ -	$ -
Due after one but within five years	5,000	4,997
Due after five but within ten years	2,406	2,400
Due after ten years	4,995	4,889
	$ 12,401	$ 12,286

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to potential calling of these securities by the issuers.

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The age of unrealized losses and the fair value of related securities available for sale and held to maturity were as follows (in thousands): as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2010						
U.S. Government agencies	$ 12,286	$ 115	$ -	$ -	$ 12,286	$ 115
Collateralized mortgage obligations-GSE	1	-	12	-	13	-
Mortgage-backed securities-GSE	5,061	11	64	-	5,125	11
	$ 17,348	$ 126	$ 76	$ -	$ 17,424	$ 126
December 31, 2009						
Mortgage backed securities-GSE	$ -	$ -	$ 127	$ 1	$ 127	$ -
	$ -	$ -	$ 127	$ 1	$ 127	$ -

At March 31, 2010, five mortgage-backed securities, four U.S. Government agency securities and two collateralized mortgage obligations had unrealized losses. Management concluded that the unrealized losses reflected above for these securities were temporary in nature since they were primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities. Additionally, as the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market recovery, these investments are not considered to be other-then-temporarily impaired.

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Fair value accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, fair value accounting guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correction or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counter-party credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

The following table summarizes financial assets measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
March 31, 2010				
Securities available for sale:				
Mortgage-backed securities-GSE	$ -	$ 175	$ -	$ 175
Total	$ -	$ 175	$ -	$ 175

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

December 31, 2009	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
Mortgage-backed securities-GSE	$ -	$ 176	$ -	$ 176
Total	-	$ 176	-	$ 176

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis were not significant at March 31, 2010.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans:				
March 31, 2010	$ -	$ -	$ 5,020	$ 5,020
December 31, 2009	-	-	4,122	4,122

Fair value is generally determined based upon independent third-party appraisals of the underlying collateral properties, or discounted cash flows based upon the expected proceeds.

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2010 and December 31, 2009.

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

Securities available for sale are measured as described in Note 6. Held to maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost (unless value is other than temporarily impaired).

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction and land development, other loans secured by real estate, commercial and industrial loans, and loans to individuals. Certain loan types, such as commercial loans and loans to individuals, are further segmented by maturity and type of collateral.

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by first reducing the carrying value by a credit risk adjustment based on internal loan classifications, and then discounting the estimated future cash flows from the remaining carrying value at a market rate.

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FHLB of New York Stock

The carrying amount of FHLB of New York stock is equal to its fair value and considers the limited marketability of this security.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Time deposits are segregated by type, size, and remaining maturity. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market. At March 31, 2010 and December 31, 2009, accrued interest payable of $8,000 is included in deposit liabilities.

FHLB of New York Advances and Note Payable

The fair value of FHLB advances and note payable are estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At March 31, 2010 and December 31, 2009, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The carrying amounts and estimated fair value of our financial instruments are as follows:

	At March 31, 2010		At December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$54,972	$54,972	$88,718	$88,718
Certificates of deposit	3,735	3,735	8,715	8,715
Securities available for sale	175	175	176	176
Securities held to maturity	34,216	34,211	11,845	11,875
Loans receivable	387,857	396,569	386,266	395,366
FHLB stock	2,277	2,277	2,277	2,277
Accrued interest receivable	1,971	1,971	1,924	1,924
Financial liabilities:				
Deposits	367,604	372,792	379,518	385,820
FHLB advances	35,000	37,104	35,000	36,805
Note payable	332	339	328	335

NOTE 7 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE

On June 29, 2007, the Company completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was $28.0 million. At closing, the Company received $10.0 million in cash and an $18.0 million zero coupon promissory note recorded at its then present value of $16.3 million (the “Original Note”). The Original Note was payable in two $9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Company received $2.0 million in cash and a new $7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining $1.9 million balance on the New Note were rolled into a new $10.9 million note payable on July 31, 2009 (the “Combined Note”). On July 29, 2009, prior to the due date, the $10.9 million Combined Note was extended to January 31, 2010. The amount due on such date includes interest and expenses. The Company is currently negotiating with the borrower to extend the terms of the Combined Note. The Combined Note is secured by 100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a first mortgage on the Property. Based on a current appraisal, the loan to value is less than 40%. This loan is included in loans receivable, however, it is not included in the calculation of the regulatory limits on loans to one borrower.

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NOTE 8 – COMPREHENSIVE INCOME

	Three Months Ended March 31, 2010	2009
Net income	$ 523	$ 506
Other comprehensive income (loss):		
Gross unrealized holding gain (loss) on securitiesavailable for sale, net of income tax (benefit), of$1, and $-, respectively.	1	5
Benefit plan amounts (amortization of priorservice costs and actuarial gains, net of incometax effect of $11, and $3, respectively).	(4)	4
Other comprehensive income (loss)	(3)	9
Comprehensive income	$ 520	$ 515

NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. The ASU improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This ASU is effective at the start of a reporting entity’s first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption did not have a material effect on the Company’s consolidated financial condition.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB’s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption did not have a material effect on the Company’s consolidated financial condition.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's abi predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area, changes in real estate market values in the Company's market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss or a series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included in the Company's annual report on Form 10-K for 2009.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is

established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

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First Quarter Performance Highlights

The Company's net income for the quarter ended March 31, 2010 increased by $17,000 over the 2009 similar period. Net interest income increased from period to period primarily resulting from our increasing balance of investment securities and loans, the decrease in the rates paid on our deposit products, particularly certificates of deposit, and the decrease in the balance of borrowings.

Reflecting the impact of the economic downturn on our market area and the continuing decline in the market value of collateral for commercial real estate and multi-family loans, our nonperforming loans increased to $35.6 million at March 31, 2010 from $20.2 million at December 31, 2009. Non-performing loans at March 31, 2010 consisted of 15 loans in the aggregate (nine non-residential mortgage loans and six multi-family mortgage loans). The increase in nonperforming loans during the first quarter of 2010 was primarily due to the addition of four nonperforming nonresidential mortgage loans totaling $15.7 million and three nonperforming multi-family mortgage loans totaling $3.5 million, offset by the removal from nonperforming status of one nonperforming multi-family mortgage loan totaling $2.9 million and one nonperforming nonresidential mortgage loan totaling $1.1 million both of which became current at March 31, 2010.

In connection with the resulting impact of the economic downturn on the performance of the Company's loan portfolio and, in connection with the Company's quarterly in-depth analysis of its nonperforming and potential nonperforming loans, the Company significantly increased the allowance for loan losses during the third and fourth quarter of 2009. Consequently, the Company's allowance for loan losses was sufficient to absorb the $2.1 million in charge-offs during the fourth quarter of 2009 and the $323,000 in charge-offs during the first quarter of 2010. For the first quarter of 2010, the Company determined that no further provision to the allowance was necessary.

In late 2009 and continuing into 2010, we have proactively reduced mortgage origination levels to reflect the Bank's unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment.

As demonstrated by the increase in our nonperforming loans, real estate values have continued to decline in our market areas with many borrowers experiencing increasing financial stress from vacancies and collection problems. Industry wide increases of troubled commercial real estate loans have prompted heightened levels of regulatory scrutiny and increased pressure from regulators to reduce exposure to these types of loans.

Our multi-family and mixed-use lending niche has not been immune to this economic and real estate downturn. As a result, during the first quarter at 2010, we materially curtailed lending on mixed-use property and multi-family property and will continue to do so until sufficient evidence exists to demonstrate that property values are on the rise and vacancy and collection problems have begun to subside.

Until such time as the real estate markets stabilize, we will focus our attention on maintaining the health and performance of our existing mortgage portfolio.

Comparison of Financial Condition at March 31, 2010 and December 31, 2009

Total assets decreased by $10.1 million, or 1.9%, to $517.2 million at March 31, 2010 from $527.3 million at December 31, 2009. The decrease in total assets was due to a decrease of $33.7 million in cash and cash equivalents, a decrease of $5.0 million in certificates of deposits at other financial institutions, a decrease of $327,000 in other assets and a decrease of $181,000 in premises and equipment, partially offset by increases of $22.4 million in

investment securities held-to-maturity, increases of $5.2 million in bank owned life insurance, and increases of $1.6 million in loans receivable, net.

Cash and cash equivalents decreased by $33.7 million, or 38.0%, to $55.0 million at March 31, 2010, from $88.7 million at December 31, 2009. In addition, certificates of deposits at other financial institutions decreased by $5.0 million, or 38.0%, to $3.7 million at March 31, 2010 from $8.7 million at December 31, 2009.

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The decrease in short-term liquidity funded an increase of $22.4 million in investment securities held-to-maturity, an increase of $5.2 million in bank owned life insurance, an increase of $1.6 million in loans receivable, net, and a decrease of $11.9 million in deposits, offset by an increase of $1.4 million in advance payments by borrowers for taxes and insurance.

Investment securities increased by $22.4 million, or 188.9%, to $34.2 million at March 31, 2010 from $11.8 million at December 31, 2009 due to an effort to increase yield and earnings through the purchases of $12.4 million in U.S. Government agency securities, $5.1 million in mortgage-backed securities and $5.1 million in collateralized mortgage obligations.

Bank owned life insurance increased by $5.2 million, or 49.0%, to $15.7 million at March 31, 2010 from $10.5 million at December 31, 2009 due primarily to the purchases of $5.0 million in additional bank owned life insurance.

Loans receivable, net increased by $1.6 million, or 0.4%, to $387.9 million at March 31, 2010 from $386.3 million at December 31, 2009, due to loan originations of $5.2 million that exceeded loan repayments of $3.6 million.

Premises and equipment decreased by $181,000, or 2.2%, to $8.0 million at March 31, 2010 from $8.2 million at December 31, 2009 due to depreciation of existing premises and equipment.

Deposits decreased by $11.9 million, or 3.1%, to $367.6 million at March 31, 2010 from $379.5 million at December 31, 2009. The decrease in deposits was primarily attributable to decreases of $12.2 million in certificates of deposits and $2.7 million in non-interest bearing accounts, offset by increases of $2.0 million in our NOW and money market accounts and $1.0 million in our regular savings accounts.

Advance payments by borrowers for taxes and insurance increased by $1.4 million, or 44.5%, to $4.6 million at March 31, 2010 from $3.2 million at December 31, 2009 due primarily to accumulating balances paid into escrow accounts by borrowers.

Stockholders' equity increased by $396,000, or 0.4%, to $107.8 million at March 31, 2010, from $107.4 million at December 31, 2009. This increase was primarily the result of net income of $523,000 and the amortization of $42,000 for the ESOP for the period, partially offset by a cash dividend declared of $166,000.

Comparison of Operating Results for the Three Months Ended March 31, 2010 and 2009

General. Net income increased by $17,000, or 3.4%, to $523,000 for the quarter ended March 31, 2010, from $506,000 for the quarter ended March 31, 2009. The increase was primarily the result of an increase of $119,000 in net interest income, an increase of $55,000 in non-interest income, a decrease of $95,000 in the provision for income taxes, and a decrease of $16,000 in provision for loan losses, offset by an increase of $268,000 in non-interest expense.

Net Interest Income. Net interest income increased by $119,000, or 3.3%, to $3.7 million for the three months ended March 31, 2010 from $3.6 million for the three months ended March 31, 2009. The increase in net interest income resulted primarily from an increase in interest income which was due to an increase in interest income from investment securities and other interest-earning assets that more than offset a decrease in interest income from loans receivable. The increase in net interest income was also partially a result of a decrease in interest expense due to a decrease in borrowed money that offset an increase in deposits. The increase in net interest income was partially offset by a decrease of $13.8 million in net interest-earning assets.

The net interest spread decreased by 11 basis points to 2.60% for the three months ended March 31, 2010 from 2.71% for the three months ended March 31, 2009. The net interest margin decreased by 43 basis points between these periods from 3.46% for the quarter ended March 31, 2009 to 3.03% for the quarter ended March 31, 2010. The decrease in the interest rate spread and the net interest margin in the first quarter of 2010 compared to the same period in 2009 was due to the yield on our interest-earning assets decreasing to a greater degree than the decrease in the cost of our interest-bearing liabilities.

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The yield on our interest-earning assets decreased by 77 basis points to 4.92% for the three months ended March 31, 2010 from 5.69% for the three months ended March 31, 2009 and the cost of our interest-bearing liabilities decreased by 67 basis points to 2.32% for the three months ended March 31, 2010 from 2.99% for the three months ended March 31, 2009. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the low interest rate environment in 2009 which continued into the first quarter of 2010.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,					
	2010			2009		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$394,366	$5,767	5.85 %	$373,776	$5,832	6.24 %
Securities (including FHLB stock)	23,594	202	3.42	4,768	42	3.52
Other interest-earning assets	71,683	48	0.27	36,283	31	0.34
Total interest-earning assets	489,643	6,017	4.92	414,827	5,905	5.69
Allowance for loan losses	(6,726)			(1,866)		
Non-interest-earning assets	37,729			24,229		
Total assets	$520,646			$437,190		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	$74,029	$240	1.30	$25,005	$43	0.69
Savings and club accounts	60,092	107	0.71	57,545	118	0.82
Certificates of deposit	228,874	1,663	2.91	182,662	1,819	3.98
Total interest-bearing deposits	362,995	2,010	2.21	265,212	1,980	2.99
Borrowings	35,329	297	3.36	44,539	334	3.00
Total interest-bearing liabilities	398,324	2,307	2.32	309,751	2,314	2.99
Noninterest-bearing demand	9,350			6,269		
Other liabilities	5,382			10,387		
Total liabilities	413,056			326,407		
Stockholders' equity	107,590			110,783		
Total liabilities and Stockholders' equity	$520,646			$437,190		
Net interest income		$3,710			$3,591	
Interest rate spread			2.60			2.71
Net interest margin			3.03			3.46
Net interest-earning assets	$91,319			$105,076		
Interest-earning assets to interest-bearing liabilities	122.9 %			133.92 %		

Total interest income increased by $112,000, or 1.9%, to $6.0 million for the three months ended March 31, 2010, from $5.9 million for the three months ended March 31, 2009. Interest income on loans decreased by $65,000, or 1.1%, to $5.77 million for the three months ended March 31, 2010 from $5.83 million for the three months ended March 31, 2009. The average balance of the loan portfolio increased by $20.6 million to $394.4 million for the three months ended March 31, 2010 from $373.8 million for the three months ended March 31, 2009 as originations outpaced repayments. The average yield on loans decreased by 39 basis points to 5.85% for the three months ended March 31, 2010 from 6.24% for the three months ended March 31, 2009 as a result of the decreasing rate environment.

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Interest income on securities increased by $160,000, or 381.0%, to $202,000 for the three months ended March 31, 2010 from $42,000 for the three months ended March 31, 2009. The increase was primarily due to an increase of $18.8 million, or 394.8%, in the average balance of securities to $23.6 million for the three months ended March 31, 2010 from $4.8 million for the three months ended March 31, 2009. The increase in the average balance was due to purchases of additional investment securities, offset by a decrease in FHLB New York stock. The increase in the average balance was partially offset by a decrease of 10 basis points in the average yield on securities to 3.42% for the three months ended March 31, 2010 from 3.52% for the three months ended March 31, 2009. The decline in the yield was due to the re-pricing of the yield of our adjustable rate investment securities from March 31, 2009 to March 31, 2010.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) increased by $17,000, or 54.8%, to $48,000 for the three months ended March 31, 2010 from $31,000 for the three months ended March 31, 2009. The increase was primarily the result of an increase of $35.4 million in the average balance of other interest-earning assets to $71.7 million for the three months ended March 31, 2010 from $36.3 million for the three months ended March 31, 2009, partially offset by a decrease of 7 basis points in the yield to 0.27% for the three months ended March 31, 2010 from 0.34% for the three months ended March 31, 2009. The increase in the average balance of other interest-earning assets was due to the increase in interest-bearing deposits resulting from the offering of competitive rates and our new branch offices that opened in the second quarter of 2009. The decline in the yield was due to the low short term interest rate environment from March 31, 2009 to March 31, 2010.

Total interest expense decreased by $7,000, or 0.3%, to $2.3 million for the three months ended March 31, 2010 from $2.3 million for the three months ended March 31, 2009. Interest expense on deposits increased by $30,000, or 1.5%, to $2.0 million for the three months ended March 31, 2010 from $2.0 million for the three months ended March 31, 2009. During this same period, the average interest cost of deposits decreased by 78 basis points to 2.21% for the three months ended March 31, 2010 from 2.99% for the three months ended March 31, 2009.

Due to an effort by the Company to increase deposits through the opening of two new branch offices in Massachusetts during the second quarter of 2009, the offering of competitive interest rates in our retail network, and decreased reliance on two nationwide certificate of deposit listing services, the average balance of certificates of deposits increased by $46.2 million, or 25.3%, to $228.9 million for the three months ended March 31, 2010 from $182.7 million for the three months ended March 31, 2009. Despite the increase in the average balance of certificates of deposits, interest expense on our certificates of deposits decreased by $156,000, or 8.6%, to $1.66 million for the three months ended March 31, 2010 from $1.82 million for the three months ended March 31, 2009. This decrease was the result of a decrease in the interest cost of our certificates of deposits of 107 basis points to 2.91% for the three months ended March 31, 2010 from 3.98% for the three months ended March 31, 2009.

Interest expense on our other deposit products increased by $186,000, or 115.5%, to $347,000 for the three months ended March 31, 2010 from $161,000 for the three months ended March 31, 2009. The increase was due to an increase of 61 basis points in the cost of our interest-bearing demand deposits to 1.30% for the three months ended March 31, 2010 from 0.69% for the three months ended March 31, 2009, partially offset by a decrease of 11 basis points in the cost of our savings and holiday club deposits to 0.71% for the three months ended March 31, 2010 from 0.82% for the three months ended March 31, 2009. The increase was also due to an increase of $49.0 million, or 196.1%, in the average balance of interest-bearing demand deposits to $74.0 million for the three months ended March 31, 2010 from $25.0 million for the three months ended March 31, 2009 and an increase of $2.6 million, or 4.4%, in the average balance of our savings and holiday club deposits to $60.1 million for the three months ended March 31, 2010 from $57.5 million for the three months ended March 31, 2009.

Interest expense on borrowings decreased by $37,000, or 11.1%, to $297,000 for the three months ended March 31, 2010 from $334,000 for the three months ended March 31, 2009. The decrease was primarily due to a decrease of

$9.2 million, or 20.7%, in the average balance of borrowed money to $35.3 million for the three months ended March 31, 2010 from $44.5 million for the three months ended March 31, 2009. Interest expense on borrowed money for the three months ended March 31, 2010 consisted of $293,000 in interest expense on an average balance of $35.0 million in FHLB advances and $4,000 in interest expense on an average balance of $329,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank's investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to $328,000 in interest expense on an average balance of $44.1 million in FHLB advances and $6,000 in interest expense on an average balance of $483,000 on the note incurred in connection with the acquisition of Hayden Financial Group LLC for the three months ended March 31, 2009.

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Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
	2010	2009
	(Dollars in thousands)	
Allowance at beginning of period	$ 6,733	$ 1,865
Provision for loan losses	34	50
Charge-offs	393	–
Recoveries	–	–
Net charge-offs	393	–
Allowance at end of period	$ 6,374	$ 1,915
Allowance to nonperforming loans	17.90 %	51.84 %
Allowance to total loans outstanding at the end of the period	1.62 %	0.50 %
Net charge-offs (recoveries) to average loans outstanding during the period	0.10 %	0.00 %

The allowance to nonperforming loans ratio decreased to 17.90% at March 31, 2010 from 51.84% at March 31, 2009 due primarily to the increase in nonperforming loans to $35.6 million at March 31, 2010 from $3.7 million at March 31, 2009. As noted previously in the First Quarter Performance Highlights section, the increase in nonperforming loans was due to the impact of the economic downturn on the performance of the Company's loan portfolio. The Company significantly increased the allowance for loan losses during the third and fourth quarter of 2009. As a result, the allowance for loan losses was sufficient to absorb the increase in nonperforming loans and the resulting charge-offs that occurred during the fourth quarter of 2009 and continued into the first quarter of 2010. For the first quarter of 2010, the Company determined that no further provision to the allowance was necessary.

The allowance for loan losses was $6.37 million at March 31, 2010, $6.73 million at December 31, 2009, and $1.92 million at March 31, 2009. We recorded provision for loan losses of $34,000 for the three month period ended March 31, 2010 compared to a provision for loan losses of $50,000 for the three month period ended March 31, 2009.

We charged-off $393,000 against five non-performing multi-family mortgage loans, two non-performing non-residential mortgage loans, and one performing multi-family mortgage loan during the three months ended March 31, 2010. We did not have any recoveries during the three months ended March 31, 2010. We did not record any loan charge-offs or recoveries during the three months ended March 31, 2009.

Non-interest Income. Non-interest income increased by $55,000, or 16.5%, to $388,000 for the three months ended March 31, 2010 from $33,000 for the three months ended March 31, 2009. The increase was due to a $67,000 increase in earnings on bank owned life insurance, a $12,000 increase in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division, a $4,000 increase in other non-interest income, and a $4,000 decrease in impairment loss on securities, partially offset by a $25,000 decrease in other loan fees and service charges, and a $7,000 loss from the disposition of a fixed asset.

Non-interest Expense. Non-interest expense increased by $268,000, or 8.9%, to $3.3 million for the three months ended March 31, 2010 from $3.0 million for the three months ended March 31, 2009. The increase resulted primarily from increases related to the opening of two new branch locations in Massachusetts in the second quarter of 2009 and increases in FDIC deposit insurance premiums. Specifically, the Company recorded increases of $249,000 in salaries and employee benefits, $123,000 in FDIC deposit insurance expense, $48,000 in occupancy expense, $11,000 in other non-interest expense, and $10,000 in outside data processing expense, which were partially offset by decreases of $111,000 in real estate owned expenses, $44,000 in advertising expense, and $18,000 in equipment expense.

Salaries and employee benefits, which represent 53.6% of the Company's non-interest expense, increased by $249,000, or 16.2%, to $1.8 million in 2010 from $1.5 million in 2009 due to an increase in the number of full time equivalent employees from 88 at March 31, 2009 to 100 at March 31, 2010. The increase was due to the addition of employees to staff the two new branch offices in Massachusetts.

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FDIC deposit insurance expense increased by $123,000, or 1,118.2%, to $134,000 in 2010 from $11,000 in 2009 due to increased deposit insurance rates in the current period.

Occupancy expense increased by $48,000, or 16.8%, to $333,000 in 2010 from $285,000 in 2009 due to the addition of two new branch offices and increases in utility expense and real estate tax expense.

Other non-interest expense increased by $11,000, or 1.6%, to $679,000 in 2010 from $668,000 in 2009 due mainly to increases of $19,000 in miscellaneous non-interest expenses, $19,000 in service contracts, $8,000 in insurance expense, $4,000 in audit and accounting fees, and $2,000 in telephone expenses. These increases were partially offset by decreases of $25,000 in directors, officers and employee expenses, $13,000 in legal fees, and $3,000 in office supplies and stationery.

Outside data processing expense increased by $10,000, or 5.1%, to $208,000 in 2010 from $198,000 in 2009 due to additional services provided in 2010 by the Company's core data processing vendor.

Income of $1,000 in 2010 from the operation of real estate owned was due to rental income exceeding the maintenance expense of a real estate owned property located in Newark, New Jersey. This compared to a real estate owned expense of $110,000 in 2009 due to the Bank's recognition of an $86,000 loss on the disposition of a foreclosed multi-family property located in Hampton, New Hampshire and operating expenses of $24,000 in connection with the maintenance and operation of the real estate owned.

Advertising expense decreased by $44,000, or 66.7%, to $22,000 in 2010 from $66,000 in 2009 due to an effort to contain expense. Equipment expense decreased by $18,000, or 11.6%, to $137,000 in 2010 from $155,000 in 2009 due to cost containment measures.

Income Taxes. Income tax expense decreased by $95,000, or 27.9%, to $246,000 for the three months ended March 31, 2010 from $341,000 for the three months ended March 31, 2009. The decrease resulted primarily from a $78,000 decrease in pre-tax income in 2010 compared to 2009. The effective tax rate was 32.0% for the three months ended March 31, 2010 and 40.3% for the three months ended March 31, 2009. The decrease in the effective tax rate between periods was due to the additional purchase of $5.0 million in bank owned life insurance during the first quarter of 2010.

Non-Performing Assets

The following table provides information with respect to our non-performing assets at the dates indicated.

	At March 31, 2010	At December 31, 2009
	(Dollars in thousands)	
Non-accrual loans	$ 32,464	$ 20,150
Loans past due 90 days or more and accruing	1,184	-
Total nonaccrual and 90 days or more past due loans	33,648	20,150
Other non-performing loans	1,960	-
Total non-performing loans	35,608	20,150
Real estate owned	636	636
Total non-performing assets	36,244	20,786
Troubled debt restructurings	13,075	13,175

Total troubled debt restructurings and non-performing assets	$	49,319		$	33,961	
Total non-performing loans to total loans		9.06	%		5.14	%
Total non-performing loans to total assets		6.88	%		3.94	%
Total non-performing assets and troubled debt restructurings to total assets		9.54	%		6.44	%

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Non-accrual loans at March 31, 2010 consisted of fifteen loans in the aggregate – six multi-family mortgage loans and nine non-residential mortgage loans.

The six non-accrual multi-family mortgage loans totaled $3.2 million at March 31, 2010, consisting of the following multi-family mortgage loans: an outstanding balance of $1.1 million secured by an apartment building located in Boston, Massachusetts; an outstanding balance of $750,000 secured by an apartment building located in Paterson, New Jersey; an outstanding balance of $614,000 secured by an apartment building located in Holyoke, Massachusetts; an outstanding balance of $327,000 secured by an apartment building located in Elizabeth, New Jersey; an outstanding balance of $278,000 secured by an apartment building located in Herkimer, New York; and an outstanding balance of $160,000 secured by an apartment building located in Southbridge, Massachusetts.

The nine non-accrual non-residential mortgage loans totaled $29.2 million at March 31, 2010. One of the non-accrual non-residential mortgage loans had an outstanding balance of $10.9 million and is related to the sale of the 1353-55 First Avenue, New York, New York branch office building (the "Property"). The loan is secured by the interests in the companies owning the Property and a first mortgage on the Property. Based on a current appraisal, the loan to value ratio is less than 40%. The second non-accrual non-residential mortgage loan had an outstanding balance of $558,000 and consists of capitalized legal fees related to the Property.

The third non-accrual non-residential mortgage loan had an outstanding balance of $7.5 million and is secured by a hotel located in Long Beach, New York. The fourth non-accrual non-residential mortgage loan had an outstanding balance of $4.5 million and is secured by an office building located in Lawrenceville, New Jersey. The fifth non-accrual non-residential mortgage loan had an outstanding balance of $3.5 million and is secured by a restaurant/catering hall/night club located in Brooklyn, New York. The sixth non-accrual non-residential mortgage loan had an outstanding balance of $700,000 and is secured by an office/warehouse industrial facility located in Portland, Connecticut. The seventh non-accrual non-residential mortgage loan had an outstanding balance of $694,000 and is secured by two gasoline stations located in Putnam and Westchester Counties, New York. The eighth non-accrual non-residential mortgage loan had an outstanding balance of $437,000 and is secured by a strip shopping center and warehouse located in Tobyhanna, Pennsylvania. The ninth non-accrual non-residential mortgage loan had an outstanding balance of $452,000 and is secured by a restaurant and 23 boat slips located in Far Rockaway, New York.

We are in the process of foreclosing on five of the six multi-family and four of the nine non-residential properties. The Bank successfully completed foreclosure action on the two gasoline stations and took title to the two properties in April 2010. We have entered into a forbearance agreement with the owners of the non-residential property located in Long Beach, New York. Based on recent fair value analyses of the non-accrual properties, the Bank does not expect any losses beyond the amounts already charged off on the properties.

The one 90 days or more past due and still accruing loan is a multi-family mortgage loan with an outstanding balance of $1.2 million secured by an apartment building located in Cambridge, Massachusetts. The borrower is making payments under terms arranged by the Bankruptcy Court.

The other nonperforming loans consisted of two mortgage loans that are 60 days delinquent. The first had an outstanding balance of $1.7 million and is secured by an apartment building located in Brooklyn, New York. The second nonperforming loan had an outstanding balance of $212,000 and is secured by a restaurant/fish market located in Milford, New Hampshire. We are working with the borrowers to bring the loans current and we do not anticipate any loss on the loans.

At March 31, 2010, the one foreclosed property had a net balance of $636,000 and consisted of a six unit multi-family building located in Newark, New Jersey. We renovated this property and have leased all the units, with the eventual

goal of marketing the property when the real estate market has stabilized.

The troubled debt restructured loans consisted of 18 loans, all of which are current, totaling $13.1 million. The largest troubled debt restructured loan had an outstanding balance of $2.1 million and is secured by a 14 unit office building located in Pittsburgh, Pennsylvania.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

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We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled $55.0 million at March 31, 2010 and consist primarily of interest-bearing deposits at other financial institutions and miscellaneous cash items. Securities classified as available for sale provide an additional source of liquidity. Total securities classified as available for sale were $175,000 at March 31, 2010.

At March 31, 2010, we had $17.5 million in loan commitments outstanding, consisting of $13.6 million in unused commercial business lines of credit, $3.2 million in unused real estate equity lines of credit, $551,000 in unused loans in process, and $169,000 in consumer lines of credit. Certificates of deposit due within one year of March 31, 2010 totaled $183.0 million. This represented 82.1% of certificates of deposit at March 31, 2010. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2011. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At March 31, 2010, we had the ability to borrow $63.1 million, net of $35.0 million in outstanding advances, from the FHLB of New York. At March 31, 2010, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

Capital Management. The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2010, the Bank exceeded all regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the three months ended March 31, 2010 and the year ended December 31, 2009, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative Aspects of Market Risk. We use an interest rate sensitivity analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

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The following table presents the change in our net portfolio value at March 31, 2010 that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
300	$ 81,863	$ (8,414)	(9)%	16.57 %	(109) bp
200	84,856	(5,420)	(6)%	16.98 %	(68) bp
100	87,655	(2,621)	(3)%	17.34 %	(32) bp
50	88,951	(1,326)	(1)%	17.50 %	(16) bp
0	90,276	-	-	17.66 %	-
(50)	91,697	1,421	2 %	17.83 %	18 bp
(100)	93,647	3,447	4 %	18.10 %	44 bp

We and the Office of Thrift Supervision use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.

Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and

reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At March 31, 2010, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Removed and Reserved

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Northeast Community Bancorp, Inc.

Date: May 14, 2010	By:	/s/ Kenneth A. Martinek Kenneth A. Martinek President and Chief Executive Officer
Date: May 14, 2010	By:	/s/ Salvatore Randazzo Salvatore Randazzo Executive Vice President, Chief Operating Officer and Chief Financial Officer