

ESSA Bancorp, Inc.
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	20-8023072
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)

200 Palmer Street, Stroudsburg, Pennsylvania	18360
(Address of Principal Executive Offices)	(Zip Code)

(570) 421-0531

(Registrant's telephone number)

N/A

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(Former name or former address, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filers,” “accelerated filers,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)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

As of August 03, 2018 there were 11,790,596 shares of the Registrant’s common stock, par value \$0.01 per share, outstanding.

ESSA Bancorp, Inc.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2018	September 30, 2017
	(dollars in thousands)	
Cash and due from banks	\$32,750	\$ 36,008
Interest-bearing deposits with other institutions	5,157	5,675
Total cash and cash equivalents	37,907	41,683
Certificates of deposit	500	500
Investment securities available for sale, at fair value	371,109	390,452
Loans receivable (net of allowance for loan losses of \$11,130 and \$9,365)	1,301,589	1,236,681
Regulatory stock, at cost	16,597	13,832
Premises and equipment, net	15,080	16,234
Bank-owned life insurance	38,380	37,626
Foreclosed real estate	1,368	1,424
Intangible assets, net	1,463	1,844
Goodwill	13,801	13,801
Deferred income taxes	8,605	10,422
Other assets	20,875	20,719
TOTAL ASSETS	\$1,827,274	\$ 1,785,218
LIABILITIES		
Deposits	\$1,269,866	\$ 1,274,861
Short-term borrowings	220,006	137,446
Other borrowings	131,119	174,168
Advances by borrowers for taxes and insurance	14,802	5,163
Other liabilities	12,671	10,853
TOTAL LIABILITIES	1,648,464	1,602,491
STOCKHOLDERS' EQUITY		
Preferred Stock (\$0.01 par value; 10,000,000 shares authorized, none issued)	—	—
Common stock (\$0.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 11,790,596 and 11,596,263 outstanding at June 30, 2018 and September 30, 2017, respectively)	181	181
Additional paid in capital	180,537	180,764
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(8,372)	(8,720)
Retained earnings	92,011	91,147
Treasury stock, at cost; 6,342,499 and 6,536,832 shares outstanding at June 30, 2018 and September 30, 2017, respectively	(77,512)	(79,891)

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Accumulated other comprehensive loss	(8,035)	(754)
TOTAL STOCKHOLDERS' EQUITY	178,810	182,727
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,827,274	\$ 1,785,218

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30, 2018		For the Nine Months Ended June 30, 2017	
	(dollars in thousands, except per share data)		(dollars in thousands, except per share data)	
INTEREST INCOME				
Loans receivable, including fees	\$13,968	\$11,819	\$39,704	\$35,869
Investment securities:				
Taxable	2,226	2,073	6,470	5,990
Exempt from federal income tax	183	295	756	907
Other investment income	341	221	1,011	671
Total interest income	16,718	14,408	47,941	43,437
INTEREST EXPENSE				
Deposits	2,561	2,186	7,297	6,267
Short-term borrowings	992	376	2,527	923
Other borrowings	603	686	1,852	2,151
Total interest expense	4,156	3,248	11,676	9,341
NET INTEREST INCOME	12,562	11,160	36,265	34,096
Provision for loan losses	975	750	3,075	2,250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,587	10,410	33,190	31,846
NONINTEREST INCOME				
Service fees on deposit accounts	832	876	2,536	2,553
Services charges and fees on loans	342	285	1,010	912
Trust and investment fees	255	183	732	547
Gain on sale of investments, net	-	295	75	295
Earnings on Bank-owned life insurance	250	256	754	775
Insurance commissions	200	181	575	577
Other	18	44	129	102
Total noninterest income	1,897	2,120	5,811	5,761
NONINTEREST EXPENSE				
Compensation and employee benefits	5,820	6,096	17,728	18,329
Occupancy and equipment	1,049	1,106	3,420	3,387
Professional fees	564	570	1,756	2,150
Data processing	880	908	2,697	2,773
Advertising	331	254	690	800

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Federal Deposit Insurance Corporation (FDIC) premiums	234	245	679	645
Loss(Gain) on foreclosed real estate	4	(19)	-	(120)
Amortization of intangible assets	102	158	381	485
Other	1,179	1,002	3,082	2,777
Total noninterest expense	10,163	10,320	30,433	31,226
Income before income taxes	3,321	2,210	8,568	6,381
Income taxes	500	448	5,122	1,051
NET INCOME	\$2,821	\$1,762	\$3,446	\$5,330
Earnings per share				
Basic	\$0.26	\$0.16	\$0.32	\$0.50
Diluted	\$0.26	\$0.16	\$0.32	\$0.50
Dividends per share	\$0.09	\$0.09	\$0.27	\$0.27

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the Three Months Ended June 30, 2018		For the Nine Months Ended June 30, 2017	
	2018	2017	2018	2017
	(dollars in thousands)			
Net income	\$2,821	\$1,762	\$3,446	\$5,330
Other comprehensive (loss) income				
Investment securities available for sale:				
Unrealized holding (loss) gain	(1,741)	1,423	(10,144)	(7,625)
Tax effect	365	(483)	2,380	2,593
Reclassification of gains recognized in net income	—	(295)	(75)	(295)
Tax effect	—	100	18	100
Net of tax amount	(1,376)	745	(7,821)	(5,227)
Pension plan adjustment:				
Related to freezing pension	—	—	—	7,143
Tax effect	—	—	—	(2,429)
Reclassification of gains recognized in net income	—	23	—	182
Tax effect	—	(11)	—	(67)
Net of tax amount	—	12	—	4,829
Derivative and hedging activities adjustments:				
Changes in unrealized holding gains(losses) on derivatives included in net income	249	(231)	1,445	867
Tax effect	(61)	82	(369)	(397)
Reclassification adjustment for gains on derivatives included in net income	(153)	(3)	(252)	3
Tax effect	41	1	62	(1)
Net of tax amount	76	(151)	886	472
Total other comprehensive (loss) income	(1,300)	606	(6,935)	74
Comprehensive income (loss)	\$1,521	\$2,368	\$(3,489)	\$5,404

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

	Common Stock Number of Shares	Additional Paid In Capital Amount	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	
(dollars in thousands except share data)								
Balance, September 30, 2017	11,596,263	\$ 181	\$ 180,764	\$ (8,720)	\$ 91,147	\$ (79,891)	\$ (754)	\$ 182,727
Net income				3,446				3,446
Other comprehensive loss						(6,935)	(6,935)	
Reclassification of certain income tax effects from accumulated other comprehensive loss				346		(346)	—	
Cash dividends declared (\$0.27 per share)				(2,928)				(2,928)
Stock based compensation		287						287
Allocation of ESOP stock		192	348					540
Allocation of treasury shares to incentive plan	22,994	(281)			281			—
Stock options exercised	171,339	(425)			2,098			1,673
Balance, June 30, 2018	11,790,596	\$ 181	\$ 180,537	\$ (8,372)	\$ 92,011	\$ (77,512)	\$ (8,035)	\$ 178,810

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended June 30, 2018 2017 (dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$3,446	\$5,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,075	2,250
Provision for depreciation and amortization	890	997
Amortization and accretion of discounts and premiums, net	3,250	3,387
Net gain on sale of investment securities	(75)	(295)
Compensation expense on ESOP	540	516
Stock based compensation	287	245
Increase in accrued interest receivable	(116)	(70)
Increase in accrued interest payable	259	143
Earnings on bank-owned life insurance	(754)	(775)
Deferred federal income taxes	3,565	(454)
(Decrease) increase in accrued pension liability	(375)	259
Gain on foreclosed real estate, net	—	(120)
Amortization of identifiable assets	381	485
Other, net	3,833	2,682
Net cash provided by operating activities	18,206	14,580
INVESTING ACTIVITIES		
Certificates of deposit maturities	—	250
Investment securities available for sale:		
Proceeds from sale of investment securities	22,074	17,378
Proceeds from principal repayments and maturities	43,065	44,356
Purchases	(57,331)	(67,932)
Increase in loans receivable, net	(70,951)	(11,555)
Redemption of regulatory stock	15,410	16,409
Purchase of regulatory stock	(18,175)	(16,066)
Proceeds from sale of foreclosed real estate	1,165	2,221
Purchase of premises, equipment and software	(139)	(453)
Net cash used for investing activities	(64,882)	(15,392)
FINANCING ACTIVITIES		
(Decrease) increase in deposits, net	(4,995)	1,642
Net increase in short-term borrowings	82,560	16,205
Proceeds from other borrowings	38,630	43,057
Repayment of other borrowings	(81,679)	(75,490)

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Increase in advances by borrowers for taxes and insurance	9,639	7,257
Exercising of stock options	1,673	910
Dividends on common stock	(2,928)	(2,868)
Net cash provided by (used for) financing activities	42,900	(9,287)
Decrease in cash and cash equivalents	(3,776)	(10,099)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	41,683	43,658
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$37,907	\$33,559
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	\$11,417	\$9,198
Income taxes	(2)	(389)
Noncash items:		
Transfers from loans to foreclosed real estate	1,109	2,301
Unrealized holding loss	(10,219)	(7,920)
Pension Plan curtailment	—	7,143

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the “Company”), its wholly owned subsidiary, ESSA Bank & Trust (the “Bank”), and the Bank’s wholly owned subsidiaries, ESSACOR Inc.; Pocono Investments Company; ESSA Advisory Services, LLC; Integrated Financial Corporation; and Integrated Abstract Incorporated, a wholly owned subsidiary of Integrated Financial Corporation. The primary purpose of the Company is to act as a holding company for the Bank. On November 6, 2014, the Company converted its status from a savings and loan holding company to a bank holding company. In addition, the Bank converted from a Pennsylvania-chartered savings association to a Pennsylvania-chartered savings bank. The Bank’s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton, Lehigh, Delaware, Chester, Montgomery, Lackawanna, and Luzerne Counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (the “FDIC”). The investment in the Bank on the parent company’s financial statements is carried at the parent company’s equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank and is currently inactive. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania corporation that provided investment advisory services to the general public and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania corporation that provided title insurance services and is currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management, are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three and nine month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three and nine month periods ended June 30, 2018 and 2017.

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Weighted-average common shares outstanding	18,133,095	18,133,095	18,133,095	18,133,095
Average treasury stock shares	(6,360,627)	(6,547,695)	(6,447,516)	(6,629,264)
Average unearned ESOP shares	(831,689)	(876,964)	(843,049)	(888,324)
Average unearned non-vested shares	(29,310)	(29,580)	(43,302)	(43,801)

Weighted average common shares and common stock				
equivalents used to calculate basic earnings per share	10,911,469	10,678,856	10,799,228	10,571,706
Additional common stock equivalents (non-vested stock)				
used to calculate diluted earnings per share	—	332	—	—
Additional common stock equivalents (stock options) used				
to calculate diluted earnings per share	11,391	63,820	9,395	68,519
Weighted average common shares and common stock				
equivalents used to calculate diluted earnings per share	10,922,860	10,743,008	10,808,623	10,640,225

At June 30, 2018 there were 45,642 shares of nonvested stock outstanding at an average weighted price of \$15.37 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At June 30, 2017 there were 50,310 shares of nonvested stock outstanding at an average weighted price of \$14.38 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles (“GAAP”) and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ from those estimates.

4. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Since the guidance scopes out revenue associated with financial instruments, including loan receivables and investment securities, we do not expect the adoption of the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company’s revenue is not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred

tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach

with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a one percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606), which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company's financial statements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect

adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a “set”) is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Company’s financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The amendments in this Update clarify what constitutes a financial asset within the scope of Subtopic 610-20. The amendments also clarify that entities should identify each distinct nonfinancial asset or in substance nonfinancial asset that is promised to a counterparty and to derecognize each asset when the counterparty obtains control. There is also additional guidance provided for partial sales of a nonfinancial asset and when derecognition, and the related gain or loss, should be recognized. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715). The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other

entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718), which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivative and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down-round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down-round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down-round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down-round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Accounting Standards Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied either retrospectively to outstanding financial instruments with a down-round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in

which the pending content that links to this paragraph is effective or retrospectively to outstanding financial instruments with a down-round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. This Update is not expected to have a significant impact on the Company's financial statements.

August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 850), the objective of which is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the amendments in this Update make certain targeted improvements to simplify the application and disclosure of the hedge accounting guidance in current general accepted accounting principles. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any period after issuance. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this Update. The amended presentation and disclosure guidance is required only prospectively. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date the entity adopts Topic 842; otherwise, an entity should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. This Update is not expected to have a significant impact on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), to clarify certain aspects of the guidance issued in ASU 2016-01. (1) An entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820. (2) Adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place. (3) Remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities. (4) When the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives, or 825-10, Financial Instruments—Overall. (5) Financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates. (6) The prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 944, Financial Services—Insurance, should apply a prospective transition method when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity's entire population of equity securities for which the measurement alternative is elected. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01. This Update is not expected to have a significant impact on the Company's financial statements.

ASU 2018-04, Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273, ASU 2018-04 supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117. This Update is not expected to have a significant impact on the Company's financial statements.

ASU 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118, amends the Accounting Standards Codification to incorporate various SEC paragraphs pursuant to the issuance of SAB 118. SAB 118 addresses the application of generally accepted accounting principles in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. See Note 14 - Income Taxes.

ASU 2018-06, Codification Improvements to Topic 942, Financial Services-Depository and Lending, amends the guidance in Subtopic 942-740, Financial Services-Depository and Lending-Income Taxes, that is related to Circular 202 because that guidance has been rescinded by the Office of the Comptroller of the Currency (OCC) and no longer is relevant. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718), which simplified the accounting for nonemployee share-based payment transactions. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update improve the following areas of nonemployee share-based payment accounting; (a) the overall measurement objective, (b) the measurement date, (c) awards with performance conditions, (d) classification reassessment of certain equity-classified awards, (e) calculated value (nonpublic entities only), and (f) intrinsic value (nonpublic entities only). The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. This Update is not expected to have a significant impact on the Company's financial statements.

ASU 2018-09, Codification Improvements, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. This Update is not expected to have a significant impact on the Company's financial statements.

ASU 2018-10, Codification Improvements to Topic 842, Leases, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments in this ASU affect the amendments in ASU 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of this ASU, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842. This Update is not expected to have a significant impact on the Company's financial statements.

5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale are summarized as follows (in thousands):

	June 30, 2018			
	Gross		Gross	
	Amortized		Unrealized	
	Cost	Gains	Losses	Fair Value
Available for Sale				
Fannie Mae	\$136,467	\$ 19	\$(4,672)	\$131,814
Freddie Mac	97,624	13	(3,700)	93,937
Governmental National Mortgage Association Securities	19,986	—	(685)	19,301
Total mortgage-backed securities	254,077	32	(9,057)	245,052
Obligations of states and political subdivisions	50,182	541	(1,229)	49,494
U.S. government agency securities	12,853	7	(157)	12,703
Corporate obligations	44,582	187	(1,150)	43,619
Other debt securities	21,014	5	(799)	20,220
Total debt securities	382,708	772	(12,392)	371,088
Equity securities - financial services	25	—	(4)	21
Total	\$382,733	\$ 772	\$(12,396)	\$371,109

	September 30, 2017			
	Gross		Gross	
	Amortized		Unrealized	
	Cost	Gains	Losses	Fair Value
Available for Sale				

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Fannie Mae	\$119,333	\$ 207	\$ (1,203)	\$118,337
Freddie Mac	98,668	177	(808)	98,037
Governmental National Mortgage Association	17,609	43	(203)	17,449
Total mortgage-backed securities	235,610	427	(2,214)	233,823
Obligations of states and political subdivisions	64,382	1,522	(546)	65,358
U.S. government agency securities	18,615	61	(5)	18,671
Corporate obligations	49,025	335	(618)	48,742
Other debt securities	24,200	47	(414)	23,833
Total debt securities	391,832	2,392	(3,797)	390,427
Equity securities - financial services	25	—	—	25
Total	\$391,857	\$ 2,392	\$ (3,797)	\$390,452

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The amortized cost and fair value of debt securities at June 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale Amortized	
	Cost	Fair Value
Due in one year or less	\$728	\$729
Due after one year through five years	36,878	36,436
Due after five years through ten years	103,013	100,186
Due after ten years	242,089	233,737
Total	\$382,708	\$371,088

For the three months ended June 30, 2018, the Company realized no gross gains or gross losses on proceeds from the sale of investment securities. For the nine months ended June 30, 2018, the Company realized gross gains of \$300,000 and gross losses of \$225,000 on proceeds from the sale on investment securities of \$22.1 million. For the three and nine months ended June 30, 2017, the Company realized gross gains of \$299,000 and gross losses of \$4,000 on proceeds from the sale of investment securities of \$17.4 million.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (dollars in thousands):

	June 30, 2018						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Gross Fair Value	Gross Unrealized Losses	Gross Fair Value	Gross Unrealized Losses		
Fannie Mae	90	\$73,711	\$ (1,854)	\$51,557	\$ (2,818)	\$125,268	\$ (4,672)
Freddie Mac	68	51,483	(1,681)	37,623	(2,019)	89,106	(3,700)
Governmental National Mortgage Association	17	12,872	(297)	6,429	(388)	19,301	(685)
Obligations of states and political subdivisions	26	11,231	(167)	17,983	(1,062)	29,214	(1,229)
U.S. government agency securities	6	12,027	(157)	—	—	12,027	(157)
Corporate obligations	29	19,368	(425)	9,806	(725)	29,174	(1,150)
Other debt securities	19	1,279	(19)	17,697	(780)	18,976	(799)
Equity securities	1	21	(4)	—	—	21	(4)

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Total	256	\$ 181,992	\$ (4,604)	\$ 141,095	\$ (7,792)	\$ 323,087	\$ (12,396)
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September 30, 2017

Number

of Less than Twelve Months or

Greater

than

Twelve

Months

Securities

with

unrealized

losses

of

the

following

categories:

	Number	Fair Value	Gross Unrealized Losses	Greater than Twelve Months	Fair Value	Gross Unrealized Losses	Total	Gross Unrealized Losses
Fannie Mae	55	\$61,852	\$ (558)	\$20,679	\$ (645)	\$82,531	\$ (1,203)	
Freddie Mac	39	38,913	(354)	16,427	(454)	55,340	(808)	
Governmental National Mortgage Association	11	6,669	(41)	6,903	(162)	13,572	(203)	
Obligations of states and political subdivisions	25	10,944	(59)	17,425	(487)	28,369	(546)	
U.S. government agency securities	3	8,995	(5)	—	—	8,995	(5)	
Corporate obligations	22	15,119	(104)	8,032	(514)	23,151	(618)	
Other debt securities	19	7,141	(104)	13,806	(310)	20,947	(414)	
Total	174	\$149,633	\$ (1,225)	\$83,272	\$ (2,572)	\$232,905	\$ (3,797)	

The Company's investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, other mortgage backed securities, debt obligations of a U.S. state or political subdivision, U.S. government agency securities, corporate obligations, other debt securities and equity securities.

The Company reviews its position quarterly and has asserted that at June 30, 2018, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the above securities before their anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

6. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	June 30, 2018	September 30, 2017
Real estate loans:		
Residential	\$581,620	\$ 586,708
Construction	5,042	3,097
Commercial	396,762	318,323
Commercial	49,615	44,129
Obligations of states and political subdivisions	67,468	58,079
Home equity loans and lines of credit	45,043	46,219
Auto Loans	164,437	186,646
Other	2,732	2,845
	1,312,719	1,246,046
Less allowance for loan losses	11,130	9,365
Net loans	\$1,301,589	\$ 1,236,681

Purchased loans acquired in a business combination are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

Changes in the accretable yield for purchased credit-impaired loans were as follows, since acquisition, for the three and nine months ended June 30, 2018 and 2017 (in thousands):

	For the Three Months Ended June 30,	
	2018	2017
Balance at beginning of period	\$574	\$460
Reclassification, new additions and other	—	33
Accretion	(282)	(32)
Balance at end of period	\$292	\$461

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	For the Nine Months Ended June 30,	
	2018	2017
Balance at beginning of period	\$471	\$478
Reclassification, new additions and other	681	151
Accretion	(860)	(168)
Balance at end of period	\$292	\$461

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	June 30, 2018	September 30, 2017
	Acquired Loans	Acquired Loans
	with Specific	with Specific
	Evidence or	Evidence or
	Deterioration in	Deterioration in
	Credit Quality	Credit Quality
	(ASC 310-30)	(ASC 310-30)
Outstanding balance	\$ 3,183	\$ 5,490
Carrying amount	\$ 2,526	\$ 4,388

The following tables show the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated (in thousands):

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
June 30, 2018				
Real estate loans:				
Residential	\$ 581,620	\$ 5,217	\$ —	\$ 576,403
Construction	5,042	—	—	5,042
Commercial	396,762	6,227	2,099	388,436
Commercial	49,615	93	99	49,423
Obligations of states and political subdivisions	67,468	—	—	67,468
Home equity loans and lines of credit	45,043	125	328	44,590
Auto loans	164,437	433	—	164,004
Other	2,732	26	—	2,706
Total	\$ 1,312,719	\$ 12,121	\$ 2,526	\$ 1,298,072

Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
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		Impairment	Credit Quality	Impairment
September 30, 2017				
Real estate loans:				
Residential	\$ 586,708	\$ 6,202	\$ —	\$ 580,506
Construction	3,097	—	—	3,097
Commercial	318,323	7,211	3,775	307,337
Commercial	44,129	1,385	283	42,461
Obligations of states and political sub divisions	58,079	—	—	58,079
Home equity loans and lines of credit	46,219	176	330	45,713
Auto loans	186,646	572	—	186,074
Other	2,845	30	—	2,815
Total	\$ 1,246,046	\$ 15,576	\$ 4,388	\$ 1,226,082

The Company maintains a loan review system that allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (“TDR”) loan when the Company grants a concession to the borrower that it would not otherwise consider because of the borrower’s financial condition. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate at the time of modification may be removed from TDR status after one year of performance.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount at the dates indicated, if applicable (in thousands):

	Recorded	Unpaid	
	Investment	Principal	Associated
		Balance	Allowance
June 30, 2018			
With no specific allowance recorded:			
Real estate loans			
Residential	\$ 4,089	\$ 5,703	\$ —
Construction	—	—	—
Commercial	6,227	7,972	—
Commercial	93	353	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	99	114	—
Auto loans	221	413	—
Other	26	33	—
Total	10,755	14,588	—
With an allowance recorded:			
Real estate loans			
Residential	1,128	1,305	118
Construction	—	—	—
Commercial	—	—	—
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	26	26	3
Auto loans	212	228	98
Other	—	—	—
Total	1,366	1,559	219
Total:			
Real estate loans			