Waterstone Financial, Inc.
Form 10-K
March 06, 2015
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 1 0 - K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

Commission file number: 001-36271

WATERSTONE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	90-1026709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11200 W Plank Ct, Wauwatosa, Wisconsin	53226
(Address of principal executive offices)	(Zip Code)

(414) 761-1000
Registrant's telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 Par Value	The NASDAQ Stock Market, LLC
(Title of class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the 1933 Act).

Yes No T

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 1934 Act.

Yes No T

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 T No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller Reporting Company

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

Yes No T

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the common equity was last sold on June 30, 2014 as reported by the NASDAQ Global Select Market® was approximately $392.7 million.

As of February 28, 2015, 34,418,121 shares of the Registrant's Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K Into Which Portions of Document are Incorporated
Proxy Statement for Annual Meeting of Shareholders on May 20, 2015	Part III

WATERSTONE FINANCIAL, INC.

FORM 10-K ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2014

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PART 1

Item 1. Business

Forward-Looking Statements

This Form 10-K contains or incorporates by reference various forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and similar expressions and verbs in the future tense, are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to:

- Statements of our goals, intentions and expectations;
- Statements regarding our business plans, prospects, growth and operating strategies;
- Statements regarding the quality of our loan and investment portfolio;
- Estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements.

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses or prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- significant increases in our loan losses; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

See also the factors regarding future operations discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" below.

Waterstone Financial, Inc.

Waterstone Financial, Inc., A Maryland Corporation, ("New Waterstone") was organized in June 2013. Upon completion of the mutual-to-stock conversion of Lamplighter Financial, MHC in January 2014, New Waterstone

became the holding company of WaterStone Bank SSB ("WaterStone Bank") and succeeded to all of the business and operations of Waterstone Financial, Inc., a Federal Corporation ("Waterstone-Federal") and each of Waterstone-Federal and Lamplighter Financial, MHC ceased to exist. In this report, we refer to WaterStone Bank, our wholly owned subsidiary, both before and after the reorganization, as "WaterStone Bank" or the "Bank."

New Waterstone did not engage in any business prior to the completion of the mutual-to-stock conversion of Lamplighter Financial, MHC on January 22, 2014. Consequently, this Annual Report on Form 10-K reflects the financial condition and operating results of Waterstone-Federal and its subsidiaries, including the Bank, until January 22, 2014, and of New Waterstone, and its subsidiaries, including the Bank, thereafter. The words "Waterstone Financial," "we" and "our" thus are intended to refer to Waterstone-Federal and its subsidiaries with respect to matters and time periods occurring on or before January 22, 2014, and to New Waterstone and its subsidiaries with respect to matters and time periods occurring thereafter.

Waterstone Financial, Inc. and its subsidiaries, including WaterStone Bank, SSB, are referred to herein as the "Company," "Waterstone Financial," or "we."

The Company maintains a website at www.wsbonline.com. We make available through that website, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and proxy materials as soon as is reasonably practical after the Company electronically files those materials with, or furnishes them to, the Securities and Exchange Commission. You may access those reports by following the links under "Investor Relations" at the Company's website. Information on this website is not and should not be considered a part of this document.

Waterstone Financial, Inc.'s executive offices are located at 11200 West Plank Court, Wauwatosa, Wisconsin 53226, and its telephone number at this address is (414) 761-1000.

BUSINESS OF WATERSTONE BANK

General

WaterStone Bank is a community bank that has served the banking needs of its customers since 1921. WaterStone Bank also has an active mortgage banking subsidiary, Waterstone Mortgage Corporation, which had 67 offices in 16 states as of December 31, 2014.

WaterStone Bank conducts its community banking business from nine banking offices located in Milwaukee, Washington and Waukesha Counties, Wisconsin, as well as a loan production office in Minneapolis, Minnesota. WaterStone Bank's principal lending activity is originating one- to four-family and multi-family residential real estate loans for retention in its portfolio. At December 31, 2014, such loans comprised 37.6% and 47.7%, respectively, of WaterStone Bank's loan portfolio. WaterStone Bank also offers, to a lesser extent, home equity loans and lines of credit, construction and land loans, commercial real estate and commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. Our deposit offerings include: certificates of deposit, money market savings accounts, transaction deposit accounts, non-interest bearing demand accounts and individual retirement accounts. Our investment securities portfolio is comprised principally of mortgage-backed securities, government-sponsored enterprise bonds and municipal obligations.

WaterStone Bank is subject to comprehensive regulation and examination by the Wisconsin Department of Financial Institutions (WDFI) and the Federal Deposit Insurance Corporation.

WaterStone Bank's executive offices are located at 11200 West Plank Court, Wauwatosa, Wisconsin 53226, and its telephone number is (414) 761-1000. Its website address is www.wsbonline.com.

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates single-family residential real estate loans for sale into the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes lines of credit with other financial institutions as needed. Waterstone Mortgage Corporation originated approximately $1.66 billion in mortgage loans held for sale during the year ended December 31, 2014.

Market Area

WaterStone Bank. WaterStone Bank's market area is broadly defined as the Milwaukee, Wisconsin metropolitan market, which is geographically located in the southeast corner of the state. WaterStone Bank's primary market area is Milwaukee and Waukesha counties and the five surrounding counties of Ozaukee, Washington, Jefferson, Walworth and Racine. We have four branch offices in Milwaukee County, four branch offices in Waukesha County and one branch office in Washington County. At June 30, 2014 (the latest date for which information was publicly available), 49.6% of deposits in the State of Wisconsin were located in the seven-county metropolitan Milwaukee market and 43.8% of deposits in the State of Wisconsin were located in the three counties in which the Bank has a branch office.

WaterStone Bank's primary market area for deposits includes the communities in which we maintain our banking office locations. Our primary lending market area is broader than our primary deposit market area and includes all of the primary market area noted above but extends further west to the Madison, Wisconsin market and further north to the Appleton and Green Bay, Wisconsin markets. In addition, in October 2013 we opened a loan production office in Minneapolis, Minnesota, which is expected to have a primary lending market area of the Minneapolis-St. Paul, Minnesota metropolitan market.

Waterstone Mortgage Corporation. As of December 31, 2014, Waterstone Mortgage Corporation had 15 offices in Wisconsin, 12 offices in Florida, nine offices in Pennsylvania, eight offices in Minnesota, four offices in each of North Carolina and Indiana, two offices in each of Arizona, Illinois, Iowa, Ohio, and Tennessee and one office in each of Idaho, Maine, Maryland, Massachusetts, and New Hampshire.

Competition

WaterStone Bank. WaterStone Bank faces competition within our market area both in making real estate loans and attracting deposits. The Milwaukee-Waukesha-West Allis metropolitan statistical area has a high concentration of financial institutions, including large commercial banks, community banks and credit unions. The Federal Deposit Insurance Corporation has determined that our market area is a "high-rate" area with regard to deposit pricing as compared to the rest of the United States. As of June 30, 2014, based on the Federal Deposit Insurance Corporation's annual Summary of Deposits Report, we had the seventh largest market share in our metropolitan statistical area out of 53 financial institutions in our metropolitan statistical area, representing 1.6% of all deposits.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from money market funds, brokerage firms, and mutual funds. Some of our competitors offer products and services that we do not offer, such as trust services, private banking and brokerage and insurance services.

Our primary focus is to build and develop profitable consumer and commercial customer relationships while maintaining our role as a community bank.

Waterstone Mortgage Corporation. Waterstone Mortgage Corporation faces competition for originating loans both directly within the markets in which it operates and from entities that provide services throughout the United States through internet services. Waterstone Mortgage Corporation's competition comes principally from other mortgage banking firms, as well as from commercial banks, savings institutions and credit unions. In 2014, the Business Journal of Milwaukee ranked Waterstone Mortgage Corporation as southeastern Wisconsin's largest mortgage lender.

Lending Activities

The scope of the discussion included under "Lending Activities" is limited to lending operations related to loans originated for investment. A discussion of the lending activities related to loans originated for sale is included under "Mortgage Banking Activities."

Historically, our principal lending activity has been originating mortgage loans for the purchase or refinancing of residential real estate. Generally, we retain the loans that we originate, which we refer to as loans originated for investment. One- to four-family residential mortgage loans represented $412.0 million, or 37.6%, of our total loan portfolio at December 31, 2014. Multi-family residential mortgage loans represented $522.3 million, or 47.7%, of our total loan portfolio at December 31, 2014. We also offer construction and land loans, commercial real estate loans, home equity lines of credit and commercial loans. At December 31, 2014, commercial real estate loans, construction and land loans, home equity loans and commercial business loans totaled $94.8 million, $17.1 million, $29.2 million and $19.5 million, respectively.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the total portfolio at the dates indicated.

	At December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Mortgage loans:										
Residential real estate:										
One- to four-family	$411,979	37.62 %	$413,614	37.85 %	$460,821	40.65 %	$496,736	40.83 %	$582,026	44.56 %
Multi-family	522,281	47.70 %	521,597	47.75 %	514,363	45.37 %	552,240	45.39 %	542,602	41.53 %
Home equity	29,207	2.67 %	35,432	3.24 %	36,494	3.22 %	38,599	3.17 %	46,149	3.53 %
Construction and land	17,081	1.56 %	31,905	2.92 %	33,818	2.98 %	39,528	3.25 %	53,961	4.13 %
Commercial real estate	94,771	8.65 %	71,698	6.56 %	65,495	5.78 %	65,434	5.38 %	51,733	3.96 %
Commercial loans	19,471	1.78 %	18,296	1.67 %	22,549	1.99 %	24,018	1.97 %	29,812	2.28 %
Consumer	200	0.02 %	134	0.01 %	132	0.01 %	109	0.01 %	154	0.01 %
Total loans	1,094,990	100.00 %	1,092,676	100.00 %	1,133,672	100.00 %	1,216,664	100.00 %	1,306,437	100.00 %
Allowance for loan losses	(18,706)		(24,264)		(31,043)		(32,430)		(29,175)	
Loans, net	$1,076,284		$1,068,412		$1,102,629		$1,184,234		$1,277,262	

Loan Portfolio Maturities and Yields. The following table summarizes the final maturities of our loan portfolio at December 31, 2014. Maturities are based upon the final contractual payment dates and do not reflect the impact of prepayments and scheduled monthly payments that will occur.

Due during the year ended December 31,	One- to four-family Amount	Weighted Average Rate	Multi-family Amount	Weighted Average Rate	Home Equity Amount	Weighted Average Rate	Construction and Land Amount	Weighted Average Rate
	(Dollars in Thousands)							
2015	$13,447	4.96 %	$26,839	5.13 %	$8,836	4.16 %	$5,179	4.21 %
2016	14,815	4.91 %	27,054	4.57 %	2,859	5.35 %	1,370	4.67 %
2017	9,451	4.80 %	30,560	4.03 %	1,539	5.52 %	99	2.46 %
2018	5,217	4.13 %	55,696	4.13 %	2,774	5.18 %	1,751	3.69 %
2019	5,096	4.68 %	68,703	4.17 %	2,173	4.55 %	423	4.64 %
2020 and thereafter	363,953	4.69 %	313,429	4.86 %	11,026	4.42 %	8,259	4.41 %
Total	$411,979	4.70 %	$522,281	4.64 %	$29,207	4.57 %	$17,081	4.29 %

Due during the year ended December 31,	Commercial Real Estate Amount	Weighted Average Rate	Commercial Amount	Weighted Average Rate	Consumer Amount	Weighted Average Rate	Total Amount	Weighted Average Rate
	(Dollars in Thousands)							
2015	$8,042	5.30 %	$8,320	5.06 %	$86	7.81 %	$70,749	4.92 %
2016	11,205	4.76 %	1,292	4.00 %	10	7.18 %	58,605	4.72 %
2017	8,054	4.82 %	889	4.97 %	8	3.60 %	50,600	4.36 %
2018	9,812	4.33 %	3,069	4.77 %	-	0.00 %	78,319	4.21 %
2019	25,543	4.43 %	3,202	4.39 %	27	5.00 %	105,167	4.27 %
2020 and thereafter	32,115	4.79 %	2,699	5.41 %	69	5.13 %	731,550	4.76 %
Total	$94,771	4.69 %	$19,471	4.88 %	$200	6.31 %	$1,094,990	4.66 %

The following table sets forth the scheduled repayments of fixed and adjustable rate loans at December 31, 2014 that are contractually due after December 31, 2015.

	Due After December 31, 2015		
	Fixed	Adjustable	Total
	(In Thousands)		
Mortgage loans			
Real estate loans:			
One- to four-family	$29,258	$369,274	$398,532
Multi-family	142,369	353,073	495,442
Home equity	4,970	15,401	20,371
Construction and land	3,140	8,762	11,902
Commercial	47,313	39,416	86,729
Commercial	10,462	689	11,151
Consumer	114	-	114
Total loans	$237,626	$786,615	$1,024,241

One- to Four-Family Residential Mortgage Loans. WaterStone Bank's primary lending activity is originating residential mortgage loans secured by properties located in Milwaukee and surrounding counties. One- to four-family residential mortgage loans totaled $412.0 million, or 37.6% of total loans at December 31, 2014. One- to four-family residential mortgage loans originated for investment during the year ended December 31, 2014 totaled $48.3 million, or 25.8% of all loans originated for investment. Our one- to four-family residential mortgage loans have fixed or adjustable rates. Our adjustable-rate mortgage loans generally provide for maximum annual rate adjustments of 200 basis points, with a lifetime maximum adjustment of 600 basis points. Our adjustable-rate mortgage loans typically amortize over terms of up to 30 years, and are indexed to the 12-month LIBOR rate. We do not and have never offered residential mortgage loans specifically designed for borrowers with sub-prime credit scores, including Alt-A and negative amortization loans. Further, prior to 2007, we did not offer indexed, adjustable-rate loans other than home equity lines of credit, and we have never offered "teaser rate" first mortgage products.

Adjustable rate mortgage loans can decrease the interest rate risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the loan payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents and, therefore, the effectiveness of adjustable rate mortgage loans in decreasing the risk associated with changes in interest rates may be limited during periods of rapidly rising interest rates. Moreover, during periods of rapidly declining interest rates the interest income received from the adjustable rate loans can be significantly reduced, thereby adversely affecting interest income.

All residential mortgage loans that we originate include "due-on-sale" clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise transfers the real property subject to the mortgage and the loan is not repaid. We also require homeowner's insurance and where circumstances warrant, flood insurance, on properties securing real estate loans. The average single family first mortgage loan balance was $190,000 and the largest outstanding balance was $3.7 million on December 31, 2014. The average two- to four-family first mortgage loan balance was $157,000 on December 31, 2014, and the largest outstanding balance on that date was $4.9 million, which is a consolidation loan that is collateralized by 29 properties.

Multi-family Real Estate Loans. Multi-family loans totaled $522.3 million, or 47.7% of total loans at December 31, 2014. Multi-family loans originated for investment during the year ended December 31, 2014 totaled $89.0 million, or 47.5% of all loans originated for investment. These loans are generally secured by properties located in our primary market area. Our multi-family real estate underwriting policies generally provide that such real estate loans may be

made in amounts of up to 80% of the appraised value of the property provided the loan complies with our current loans-to-one borrower limit. Multi-family real estate loans are offered with interest rates that are fixed for periods of up to five years or are variable and either adjust based on a market index or at our discretion. Contractual maturities do not exceed 10 years while principal and interest payments are typically based on a 30-year amortization period. In reaching a decision whether to make a multi-family real estate loan, we consider gross revenues and the net operating income of the property, the borrower's expertise and credit history, business cash flow, and the appraised value of the underlying property. In addition, we will also consider the terms and conditions of the leases and the credit quality of the tenants. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, income taxes, depreciation and amortization divided by interest expense and current maturities of long term debt) of at least 1.15 times. Generally, multi-family loans made to corporations, partnerships and other business entities require personal guarantees by the principals and by the owners of 20% or more of the borrower.

A multi-family borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the borrower. We generally require borrowers with aggregate outstanding balances exceeding $1.0 million to provide updated financial statements and federal tax returns annually. These requirements also apply to all guarantors on these loans. We also require borrowers with rental investment property to provide an annual report of income and expenses for the property, including a tenant list and copies of leases, as applicable. The average outstanding multi-family mortgage loan balance was $788,000 on December 31, 2014, with the largest outstanding balance at $7.8 million. At December 31, 2014, our largest exposure to one borrower or to a related group of borrowers was $27.0 million.

Loans secured by multi-family real estate generally involve larger principal amounts than owner-occupied, one- to four-family residential mortgage loans. Because payments on loans secured by multi-family properties often depend on the successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

Home Equity Loans and Lines of Credit. We also offer home equity loans and home equity lines of credit, both of which are secured by owner-occupied and non-owner occupied one- to four-family residences. At December 31, 2014, outstanding home equity loans and equity lines of credit totaled $29.2 million, or 2.7% of total loans outstanding. At December 31, 2014, the unadvanced portion of home equity lines of credit totaled $14.8 million. Home equity loans and lines originated for investment during the year ended December 31, 2014 totaled $4.2 million, or 2.2% of all loans originated for investment. The underwriting standards utilized for home equity loans and home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan, and the value of the collateral securing the loan. Home equity loans are offered with adjustable rates of interest and with terms up to 10 years. The loan-to-value ratio for our home equity loans and our lines of credit is generally limited to 90% when combined with the first security lien, if applicable. Our home equity lines of credit have ten-year terms and adjustable rates of interest, subject to a contractual floor, which are indexed to the prime rate, as reported in The Wall Street Journal. Interest rates on home equity lines of credit are generally limited to a maximum rate of 18%. The average outstanding home equity loan balance was $45,000 at December 31, 2014, with the largest outstanding balance at that date of $595,000.

Residential Construction and Land Loans. We originate construction loans to individuals and contractors for the construction and acquisition of single and multi-family residences. At December 31, 2014, construction and land loans totaled $17.1 million, or 1.6% of total loans. Construction and land loans originated for investment during the year ended December 31, 2014 totaled $8.8 million, or 4.7% of all loans originated for investment. At December 31, 2014, the unadvanced portion of these construction loans totaled $12.3 million.

Our construction mortgage loans generally provide for the payment of interest only during the construction phase, which is typically up to nine months although our policy is to consider construction periods as long as 12 months or more. At the end of the construction phase, the construction loan converts to a longer-term mortgage loan. Construction loans can be made with a maximum loan-to-value ratio of 90%, provided that the borrower obtains private mortgage insurance if the loan balance exceeds 80% of the lesser of the appraised value or acquistion cost of the secured property. The average outstanding construction loan balance totaled $650,000 on December 31, 2014, with the largest outstanding balance at $1.3 million. The average outstanding land loan balance was $265,000 on December 31, 2014, and the largest outstanding balance on that date was $3.9 million.

Before making a commitment to fund a residential construction loan, we require an appraisal of the property by an independent licensed appraiser. We also review and inspect each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on either the percentage of completion method or the actual cost of the completed work.

Construction financing is generally considered to involve a higher degree of credit risk than longer-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if the estimate of value is inaccurate, we may be confronted with a project, when completed, with a value that is insufficient to ensure full repayment of the loan.

Commercial Real Estate Loans. Commercial real estate loans totaled $94.8 million at December 31, 2014, or 8.7% of total loans, and are made up of loans secured by office and retail buildings, industrial buildings, churches, restaurants, other retail properties and mixed use properties. Commercial real estate loans originated for investment during the year ended December 31, 2014 totaled $29.3 million, or 15.6% of all loans originated for investment. These loans are generally secured by property located in our primary market area. Our commercial real estate underwriting policies provide that such real estate loans may be made in amounts of up to 80% of the appraised value of the property. Commercial real estate loans are offered with interest rates that are fixed up to five years or are variable and either adjust based on a market index or at our discretion. Contractual maturities do not exceed 10 years while principal and

interest payments are typically based on a 30-year amortization period. In reaching a decision whether to make a commercial real estate loan, we consider gross revenues and the net operating income of the property, the borrower's expertise and credit history, business cash flow, and the appraised value of the underlying property. In addition, we will also consider the terms and conditions of the leases and the credit quality of the tenants. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, income taxes, depreciation and amortization divided by interest expense and current maturities of long term debt) of at least 1.15 times. Environmental surveys are required for commercial real estate loans when environmental risks are identified. Generally, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the principals and by the owners of 20% or more of the borrower.

A commercial real estate borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the borrower. We generally require borrowers with aggregate outstanding balances exceeding $1.0 million to provide annual updated financial statements and federal tax returns. These requirements also apply to all guarantors on these loans. We also require borrowers to provide an annual report of income and expenses for the property, including a tenant list and copies of leases, as applicable. The average commercial real estate loan in our portfolio at December 31, 2014 was $589,000, and the largest outstanding balance at that date was $4.7 million.

Commercial Loans. Commercial loans totaled $19.5 million at December 31, 2014, or 1.8% of total loans, and are made up of loans secured by accounts receivable, inventory, equipment and real estate. Commercial loans originated for investment during the year ended December 31, 2014 totaled $7.9 million, or 4.2% of all loans originated.

Our commercial loans are generally made to borrowers that are located in our primary market area. Working capital lines of credit are granted for the purpose of carrying inventory and accounts receivable or purchasing equipment. These lines require that certain working capital ratios must be maintained and are monitored on a monthly or quarterly basis. Working capital lines of credit are short-term loans of 12 months or less with variable interest rates. At December 31, 2014, the unadvanced portion of working capital lines of credit totaled $11.6 million. Outstanding balances fluctuate up to the maximum commitment amount based on fluctuations in the balance of the underlying collateral. Personal property loans secured by equipment are considered commercial business loans and are generally made for terms of up to 84 months and for up to 80% of the value of the underlying collateral. Interest rates on equipment loans may be either fixed or variable. Commercial business loans are generally variable rate loans with initial fixed rate periods of up to five years.

A commercial business borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, usually quarterly, payment history reviews and periodic face-to-face meetings with the borrower. The average outstanding commercial loan at December 31, 2014 was $179,000 and the largest outstanding balance on that date was $1.9 million.

The following table shows loan origination, principal repayment activity, transfers to real estate owned, charge-offs and sales during the years indicated.

	As of or for the Year Ended December 31,		
	2014	2013	2012
	(In Thousands)		
Total gross loans receivable and held for sale at beginning of year	$1,189,697	$1,267,285	$1,304,947
Real estate loans originated for investment:			
Residential			
One- to four-family	48,325	24,504	17,088
Multi-family	88,958	82,938	51,816
Home equity	4,177	6,079	3,112
Construction and land	8,806	6,676	2,695
Commercial real estate	29,294	12,098	14,572
Total real estate loans originated for investment	179,560	132,295	89,283
Consumer loans originated for investment	10	12	35
Commercial loans originated for investment	7,863	7,612	9,857
Total loans originated for investment	187,433	139,919	99,175
Real estate loans purchased for investment:			
One- to four-family	-	-	12,148
Home equity	-	-	3,338
Total real estate loans purchased for investment	-	-	15,486
Principal repayments	(159,619)	(154,739)	(164,392)
Transfers to real estate owned	(16,645)	(13,552)	(22,282)
Loan principal charged-off	(8,855)	(12,624)	(10,978)
Net activity in loans held for investment	2,314	(40,996)	(82,991)
Loans originated for sale	1,661,376	1,751,054	1,749,426
Loans sold	(1,633,324)	(1,787,646)	(1,704,097)
Net activity in loans held for sale	28,052	(36,592)	45,329
Total gross loans receivable and held for sale at end of year	$1,220,063	$1,189,697	$1,267,285

Origination and Servicing of Loans. All loans originated for investment are underwritten pursuant to internally developed policies and procedures. While we generally underwrite owner-occupied residential mortgage loans to Freddie Mac and Fannie Mae standards, due to several unique characteristics, our loans originated prior to 2008 do not conform to the secondary market standards. The unique features of these loans include: interest payments in advance of the month in which they are earned, discretionary rate adjustments that are not tied to an independent index.

Exclusive of our mortgage banking operations, we generally retain in our portfolio a significant majority of the loans that we originate. At December 31, 2014, WaterStone Bank was servicing $2.7 million in loan participations we originated and subsequently sold to unrelated third parties. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

Loan Approval Procedures and Authority. WaterStone Bank's lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by WaterStone Bank's board of directors. The

loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan, if applicable. To assess the borrower's ability to repay, we review the employment and credit history and information on the historical and projected income and expenses of borrowers.

Loan officers, with concurrence from independent credit officers and underwriters, are authorized to approve and close any loan that qualifies under WaterStone Bank underwriting guidelines within the following lending limits:

- A secured one- to four-family mortgage loan up to $500,000 for a borrower with total outstanding loans from us of less than $1,000,000 that is independently underwritten can be approved by select loan officers.

- A loan up to $500,000 for a borrower with total outstanding loans from us of less than $500,000 can be approved by select commercial loan officers.

- Any secured mortgage loan ranging from $500,001 to $2,999,999 or any new loan to a borrower with outstanding loans from us exceeding $1,000,000 must be approved by the Officer Loan Committee.

- Any loan for $3,000,000 or more must be approved by the Officer Loan Committee and the board of directors prior to closing. Any new loan to a borrower with outstanding loans from us exceeding $10,000,000 must be reviewed by the board of directors.

Asset Quality

When a loan becomes more than 30 days delinquent, WaterStone Bank sends a letter advising the borrower of the delinquency. The borrower is given a specific date by which delinquent payments must be made or by which they must contact WaterStone Bank to make arrangements to bring the loan current over a longer period of time. If the borrower fails to bring the loan current within the specified time period or to make arrangements to cure the delinquency over a longer period of time, the matter is referred to legal counsel and foreclosure or other collection proceedings are considered.

All loans are reviewed on a regular basis, and such loans are placed on non-accrual status when they become more than 90 or more days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is reversed, and further income is recognized only to the extent received.

Non-Performing Assets. Non-performing assets consist of non-accrual loans and other real estate owned. Loans are generally placed on non-accrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, management may place such loans on non-accrual status immediately, rather than waiting until the loan becomes 90 days past due. At the time a loan is placed on non-accrual status, previously accrued and uncollected interest on such loans is reversed and additional income is recorded only to the extent that payments are received and the collection of principal is reasonably assured. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The table below sets forth the amounts and categories of our non-accrual loans and real estate owned at the dates indicated.

	At December 31,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
Non-accrual loans:					
Residential					
One- to four-family	$23,918	$30,207	$46,467	$55,609	$56,759
Multi-family	12,001	13,498	23,205	13,680	20,587
Home equity	445	1,585	1,578	1,334	712
Construction and land	401	4,195	2,215	6,946	3,013
Commercial real estate	947	938	668	514	1,577
Commercial	299	521	511	135	1,530
Consumer	-	17	24	-	-
Total non-accrual loans	38,011	50,961	74,668	78,218	84,178
Real estate owned					
One- to four-family	10,796	12,980	17,353	27,449	28,142
Multi-family	2,210	3,040	9,890	16,231	14,903
Construction and land	5,400	6,258	7,029	8,796	9,926
Commercial real estate	300	385	1,702	4,194	4,781
Total real estate owned	18,706	22,663	35,974	56,670	57,752
Total non-performing assets	$56,717	$73,624	$110,642	$134,888	$141,930
Total non-accrual loans to total loans, net	3.47 %	4.66 %	6.59 %	6.43 %	6.44 %

Total non-accrual loans to total assets	2.13 %	2.62 %	4.50 %	4.57 %	4.65 %
Total non-performing assets to total assets	3.18 %	3.78 %	6.66 %	7.88 %	7.85 %

All loans that exceed 90 days with respect to past due principal and interest are recognized as non-accrual. Troubled debt restructurings which are still on nonaccrual either due to being past due greater than 90 days, or which have not yet performed under the modified terms for a reasonable period of time, are included in the table above. In addition, loans which are past due less than 90 days are evaluated to determine the likelihood of collectability given other credit risk factors such as early stage delinquency, the nature of the collateral or the results of a borrower fiscal review. When the collection of all contractual principal and interest is determined to be unlikely, the loan is moved to non-accrual status and an updated appraisal of the underlying collateral is ordered. This process generally takes place between contractual past due dates 60 and 90 days. Upon determining the updated estimated value of the collateral, a loan loss provision is recorded to establish a specific reserve to the extent that the outstanding principal balance exceeds the updated estimated net realizable value of the collateral. When a loan is determined to be uncollectible, generally coinciding with the initiation of foreclosure action, the specific reserve is reviewed for adequacy, adjusted if necessary, and charged-off.

The following table sets forth activity in our non-accrual loans for the years indicated.

	At December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Balance at beginning of year	$50,961	$74,668	$78,218	$84,178	$75,313
Additions	21,585	33,488	44,617	59,703	87,349
Transfers to real estate owned	(16,645)	(13,552)	(22,282)	(28,259)	(41,781)
Charge-offs	(7,099)	(11,792)	(8,379)	(14,138)	(24,395)
Returned to accrual status	(4,470)	(26,005)	(8,194)	(12,021)	(7,936)
Principal paydowns and other	(6,321)	(5,846)	(9,312)	(11,245)	(4,372)
Balance at end of year	$38,011	$50,961	$74,668	$78,218	$84,178

Total non-accrual loans decreased by $13.0 million, or 25.4%, to $38.0 million as of December 31, 2014 compared to $51.0 million as of December 31, 2013. The ratio of non-accrual loans to total loans receivable was 3.47% at December 31, 2014 compared to 4.66% at December 31, 2013. During the year ended December 31, 2014, $16.6 million were transferred to real estate owned, $7.1 million in loan principal was charged off, $6.3 million in principal payments were received and $4.5 million in loans were returned to accrual status. Offsetting this activity, $21.6 million in loans were placed on non-accrual status during the year ended December 31, 2014.

Of the $38.0 million in total non-accrual loans as of December 31, 2014, $36.0 million in loans have been specifically reviewed to assess whether a specific valuation allowance is necessary. A specific valuation allowance is established for an amount equal to the impairment when the carrying value of the loan exceeds the present value of expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral with an adjustment made for costs to dispose of the asset. Based upon these specific reviews, a total of $8.0 million in partial charge-offs have been recorded with respect to these loans as of December 31, 2014. Partially charged-off loans measured for impairment based upon net realizable collateral value are maintained in a "non-performing" status and are disclosed as impaired loans. In addition, specific reserves totaling $3.3 million have been recorded as of December 31, 2014. The remaining $2.0 million of non-accrual loans were reviewed on an aggregate basis and $506,000 in general valuation allowance was deemed necessary related to those loans as of December 31, 2014. The $506,000 in general valuation allowance is based upon a migration analysis performed with respect to similar non-accrual loans in prior periods.

Our largest non-accrual loan as of December 31, 2014 was collateralized by multi-family residential real estate located in southeastern Wisconsin. This loan had a principal balance of $2.6 million at December 31, 2014, which is net of life-to-date charge-offs of $1.1 million, and a specific valuation allowance of $98,000. Our second largest non-accrual loan as of December 31, 2014 was collateralized by multi-family residence real estate located in southeastern Wisconsin. This loan had a principal balance of $1.5 million at December 31, 2014, which is net of life-to-date charge-offs of $454,000, and a specific valuation allowance of $28,000. Our third largest non-accrual loan as of December 31, 2014 was collateralized by a single-family residence located in southeastern Wisconsin. This loan had a principal balance of $1.4 million and a specific valuation allowance of $144,000 at December 31, 2014. Our fourth largest non-accrual loan as of December 31, 2014 was collateralized by single-family residence located in southeastern Wisconsin with a principal balance of $1.4 million, which is net of life-to-date charge-offs of $820,000, and a specific valuation of $43,000. Our next largest non-accrual loan as of December 31, 2014 was collateralized by multi-family residence real estate located in southeastern Wisconsin. This loan had a principal balance of $1.3 million, which is net of life-to-date charge-offs of $200,000, and a specific valuation allowance of $538,000 at December 31, 2014. Together, these five largest non-accrual loans comprised 21.4% of total non-accrual loans at December 31, 2014.

For the year ended December 31, 2014, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $2.5 million. We recognized $1.6 million of interest income on such loans during the year ended December 31, 2014.

There were no accruing loans past due 90 days or more during the years ended December 31, 2014, 2013 or 2012.

Troubled Debt Restructurings. The following table summarizes troubled debt restructurings by the Company's internal risk rating.

	At December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Troubled debt restructurings					
Substandard	$22,629	$25,258	$48,449	$47,220	$15,769

Watch	3,488	4,329	11,172	8,192	20,703
Total troubled debt restructurings	$26,117	$29,587	$59,621	$55,412	$36,472

Troubled debt restructurings totaled $26.1 million at December 31, 2014, compared to $29.6 million at December 31, 2013. At December 31, 2014, $20.7 million of troubled debt restructurings, or 79.1%, were performing in accordance with their restructured terms. All troubled debt restructurings are considered to be impaired and are risk rated as either substandard or watch and are included in the internal risk rating tables disclosed in the notes to the consolidated financial statements. Specific reserves have been established to the extent that the collateral-based impairment analyses indicate that a collateral shortfall exists or to the extent that a discounted cash flow analysis results in an impairment.

We do not participate in government-sponsored troubled debt restructuring programs. Our troubled debt restructurings are short-term modifications. Typical initial restructured terms include six to twelve months of principal forbearance, a reduction in interest rate or both. Restructured terms do not include a reduction of the outstanding principal balance unless mandated by a bankruptcy court. Troubled debt restructuring terms may be renewed or further modified at the end of the initial term for an additional period if performance has been acceptable and the short-term borrower difficulty persists.

Information with respect to the accrual status of our troubled debt restructurings is provided in the following table.

	At December 31,			
	2014		2013	
	Accruing	Non-accruing	Accruing	Non-accruing
	(In Thousands)			
One- to four-family	$4,724	$ 10,233	$6,218	$ 11,875
Multi-family	2,923	4,797	2,710	5,314
Home equity	-	98	-	972
Construction and land	1,866	-	1,408	833
Commercial real estate	1,306	170	-	257
	$10,819	$ 15,298	$10,336	$ 19,251

The following table sets forth activity in our troubled debt restructurings for the years indicated.

	At or for the Year Ended December 31,			
	2014		2013	
	Accruing	Non-accruing	Accruing	Non-accruing
	(In Thousands)			
Balance at beginning of year	$10,336	$ 19,251	$16,011	$ 43,610
Additions	1,551	4,129	230	1,489
Change in accrual status	755	(755)	4,684	(4,684)
Charge-offs	-	(1,403)	-	(2,459)
Returned to contractual/market terms	(1,061)	(1,796)	(9,453)	(13,848)
Transferred to real estate owned	-	(2,995)	-	(3,094)
Principal paydowns and other	(762)	(1,133)	(1,136)	(1,763)
Balance at end of period	$10,819	$ 15,298	$10,336	$ 19,251

For the year ended December 31, 2014, gross interest income that would have been recorded had our troubled debt restructurings been current in accordance with their contractual terms was $1.4 million. We recognized $1.3 million of interest income on such loans during the year ended December 31, 2014.

If a restructured loan is current in all respects and a minimum of six consecutive restructured payments have been received, it can be considered for return to accrual status. After a restructured loan that is current in all respects reverts to contractual/market terms, if a credit department review indicates no evidence of elevated market risk, the loan is removed from the troubled debt restructuring classification.

Loan Delinquency. The following table summarizes loan delinquency in total dollars and as a percentage of the total loan portfolio:

	At December 31,	
	2014	2013
	(Dollars in Thousands)	
Loans past due less than 90 days	$9,022	$13,231
Loans past due 90 days or more	25,112	30,780
Total loans past due	$34,134	$44,011
Total loans past due to total loans receivable	3.12 %	4.03 %

Past due loans decreased by $9.9 million, or 22.4%, to $34.1 million at December 31, 2014 from $44.0 million at December 31, 2013. Loans past due 90 days or more decreased by $5.7 million, or 18.4%, during the year ended December 31, 2014 while loans past due less than 90 days decreased by $4.2 million, or 31.8%. The $5.7 million decrease in loans past due 90 days or more was primarily due to a decrease in the one- to four- family of $5.3 million during the year ended December 31, 2014. The $4.2 million decrease in loans past due less than 90 days or more was primarily attributable to a $2.7 million decrease in loans collateralized by one- to four- family loans.

Potential Problem Loans.

We define potential problem loans as substandard loans which are still accruing interest. We do not necessarily expect to realize losses on all potential problem loans, but we recognize potential problem loans carry a higher probability of default and require additional attention by management. The aggregate principal amounts of potential

problem loans as of December 31, 2014 and 2013 were approximately $9.8 million and $12.0 million, respectively. Management believes it has established an adequate allowance for probable loan losses as appropriate under generally accepted accounting principles.

Real Estate Owned.

Total real estate owned decreased by $4.0 million, or 17.4%, to $18.7 million at December 31, 2014, compared to $22.7 million at December 31, 2013. During the year ended December 31, 2014, $16.6 million was transferred from loans to real estate owned upon completion of foreclosure. Declines in property values evidenced by updated appraisals, responses to list prices on properties held for sale and/or deterioration in the condition of properties resulted in write-downs totaling $1.5 million during the year ended December 31, 2014. During the same period, sales of real estate owned totaled $19.1 million, resulting in a net gain of $864,000.

In an effort to strengthen our oversight of problem assets and minimize overall costs and expenses as well as any loss on the sale of real estate owned, during 2011 we established an internal asset management group and an internal sales group, which also enable our lenders to focus on loan origination instead of foreclosed asset management.

New appraisals received on real estate owned and collateral dependent impaired loans are based upon an "as is value" assumption. During the period of time in which we are awaiting receipt of an updated appraisal, loans evaluated for impairment based upon collateral value are measured by the following:

- Applying an updated adjustment factor to an existing appraisal;
- Confirming that the physical condition of the real estate has not significantly changed since the last valuation date;
- Comparing the estimated current value of the collateral to that of updated sales values experienced on similar collateral;
- Comparing the estimated current value of the collateral to that of updated values seen on current appraisals of similar collateral; and
- Comparing the estimated current value to that of updated listed sales prices on our real estate owned and that of similar properties (not owned by us).

We owned 142 properties at December 31, 2014, compared to 158 properties as of December 31, 2013 and 223 properties at December 31, 2012. Habitable real estate owned is managed with the intent of attracting a lessee to generate revenue. Foreclosed properties are transferred to real estate owned at estimated net realizable value, with charge-offs, if any, charged to the allowance for loan losses upon transfer to real estate owned. The fair value is primarily based upon updated appraisals in addition to an analysis of current real estate market conditions.

Allowance for Loan Losses.

We establish valuation allowances on loans that are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreement. A valuation allowance is established for an amount equal to the impairment when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral.

We also establish valuation allowances based on an evaluation of the various risk components that are inherent in the loan portfolio. The risk components that are evaluated include past loan loss experience; the level of non-performing and classified assets; current economic conditions; volume, growth, and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and recoveries of previously charged-off loans and reduced by charge-offs. The appropriateness of the allowance for loan losses is reviewed and approved quarterly by the WaterStone Bank board of directors. The allowance reflects management's best estimate of the amount needed to provide for the probable loss on impaired loans and other inherent losses in the loan portfolio, and is based on a risk model developed and implemented by management and approved by the WaterStone Bank board of directors.

Actual results could differ from this estimate, and future additions to the allowance may be necessary based on unforeseen changes in loan quality and economic conditions. In addition, the Federal Deposit Insurance Corporation and the WDFI, as an integral part of their examination process, periodically review WaterStone Bank's allowance for loan losses. Such regulators have the authority to require WaterStone Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their review or examination.

Any loan that is 90 or more days past due is placed on non-accrual and classified as a non-performing asset. A loan is classified as impaired when it is probable that we will be unable to collect all amounts due in accordance with the terms of the loan agreement. Non-performing assets are then evaluated and accounted for in accordance with generally accepted accounting principles.

The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or for the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
Balance at beginning of year	$24,264	$31,043	$32,430	$29,175	$28,494
Provision for loan losses	1,150	4,532	8,300	22,077	25,832
Charge-offs:					
Mortgage loans					
One- to four-family	2,424	8,706	6,472	11,553	16,906
Multi-family	5,247	1,640	1,108	3,996	3,439
Home equity	191	630	485	634	619
Construction and land	496	1,480	1,668	1,745	2,319

Commercial real estate	199	160	1,182	734	575
Consumer	5	-	4	10	13
Commercial	293	8	59	619	1,470
Total charge-offs	8,855	12,624	10,978	19,291	25,341
Recoveries:					
Mortgage loans					
One- to four-family	1,833	957	667	311	127
Multi-family	189	258	56	40	55
Home equity	14	35	25	7	3
Construction and land	75	51	250	69	2
Commercial real estate	27	-	-	6	1
Consumer	6	6	-	1	1
Commercial	3	6	293	35	1
Total recoveries	2,147	1,313	1,291	469	190
Net charge-offs	6,708	11,311	9,687	18,822	25,151
Allowance at end of year	$18,706	$24,264	$31,043	$32,430	$29,175
Ratios:					
Allowance for loan losses to non-performing loans at end of year	49.21 %	47.61 %	41.58 %	41.46 %	34.66 %
Allowance for loan losses to loans outstanding at end of year	1.71 %	2.22 %	2.74 %	2.67 %	2.23 %
Net charge-offs to average loans outstanding	0.55 %	0.94 %	0.76 %	1.43 %	1.75 %
Current year provision for loan losses to net charge-offs	17.14 %	40.07 %	85.68 %	117.29%	102.71%
Net charge-offs to beginning of the year allowance	27.65 %	36.44 %	29.87 %	64.51 %	88.27 %

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31, 2014			2013			2012		
	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance
	(Dollars in Thousands)								
Real Estate:									
Residential									
One- to four-family	$9,877	37.62 %	52.80 %	$11,549	37.85 %	47.59 %	$17,819	40.65 %	57.40 %
Multi-family	5,358	47.70 %	28.64 %	7,211	47.75 %	29.72 %	7,734	45.37 %	24.90 %
Home equity	422	2.67 %	2.26 %	1,807	3.24 %	7.45 %	2,097	3.22 %	6.76 %
Construction and land	687	1.56 %	3.67 %						