BankFinancial CORP
Form 10-Q
April 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended March 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to
Commission File Number 0-51331

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

Maryland	75-3199276
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. At April 24, 2017, there were 18,379,256 shares of Common Stock, $0.01 par value, outstanding.

BANKFINANCIAL CORPORATION
Form 10-Q
March 31, 2017
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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	March 31, 2017	December 31, 2016
Assets		
Cash and due from other financial institutions	$ 10,247	$ 13,053
Interest-bearing deposits in other financial institutions	65,219	83,631
Cash and cash equivalents	75,466	96,684
Securities, at fair value	110,230	107,212
Loans receivable, net of allowance for loan losses: March 31, 2017, $7,971 and December 31, 2016, $8,127	1,319,287	1,312,952
Other real estate owned, net	5,301	3,895
Stock in Federal Home Loan Bank and Federal Reserve Bank, at cost	8,147	11,650
Premises and equipment, net	31,149	31,413
Accrued interest receivable	4,478	4,381
Core deposit intangible	653	782
Bank owned life insurance	22,657	22,594
Deferred taxes	22,103	22,411
Other assets	4,002	6,063
Total assets	$ 1,603,473	$ 1,620,037
Liabilities		
Deposits		
Noninterest-bearing	$ 234,415	$ 249,539
Interest-bearing	1,094,867	1,089,851
Total deposits	1,329,282	1,339,390
Borrowings	52,046	51,069
Advance payments by borrowers for taxes and insurance	9,068	11,041
Accrued interest payable and other liabilities	11,056	13,757
Total liabilities	1,401,452	1,415,257
Stockholders’ equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 18,440,440 shares issued at March 31, 2017 and 19,233,760 issued at December 31, 2016	184	192
Additional paid-in capital	161,265	173,047
Retained earnings	40,209	39,483
Unearned Employee Stock Ownership Plan shares	—	(8,318)
Accumulated other comprehensive income	363	376
Total stockholders’ equity	202,021	204,780
Total liabilities and stockholders’ equity	$ 1,603,473	$ 1,620,037

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Interest and dividend income		
Loans, including fees	$12,760	$ 12,347
Securities	349	314
Other	253	98
Total interest income	13,362	12,759
Interest expense		
Deposits	1,180	787
Borrowings	96	69
Total interest expense	1,276	856
Net interest income	12,086	11,903
Provision for (recovery of) loan losses	161	(490)
Net interest income after provision for (recovery of) loan losses	11,925	12,393
Noninterest income		
Deposit service charges and fees	529	567
Other fee income	481	495
Insurance commissions and annuities income	77	55
Gain on sale of loans, net	7	18
Gain on sale of securities (includes $46 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities for the three months ended March 31, 2016)	—	46
Loan servicing fees	68	73
Amortization and impairment of servicing assets	(31)	(31)
Earnings on bank owned life insurance	63	51
Trust income	172	160
Other	178	160
Total noninterest income	1,544	1,594
Noninterest expense		
Compensation and benefits	6,352	5,993
Office occupancy and equipment	1,622	1,647
Advertising and public relations	381	222
Information technology	753	724
Supplies, telephone, and postage	332	376
Amortization of intangibles	129	136
Nonperforming asset management	104	84
Operations of other real estate owned	213	376
FDIC insurance premiums	187	217
Other	1,193	1,155
Total noninterest expense	11,266	10,930
Income before income taxes	2,203	3,057
Income tax expense	322	1,153
Net income	$1,881	$ 1,904
Basic earnings per common share	$0.10	$ 0.10

Diluted earnings per common share	$ 0.10	$ 0.10
Weighted average common shares outstanding	18,642,054	19,428,551
Diluted weighted average common shares outstanding	18,647,516	19,431,490

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
Net income	$1,881	$1,904
Unrealized holding loss arising during the period	(20)	(22)
Tax effect	7	8
Net of tax	(13)	(14)
Reclassification adjustment for gain included in net income	—	(46)
Tax effect, included in income tax expense	—	18
Reclassification adjustment for gain included in net income, net of tax	—	(28)
Other comprehensive loss	(13)	(42)
Comprehensive income	$1,868	$1,862

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2016	$ 203	$ 184,797	$ 36,114	$ (9,297)	$ 547	$ 212,364
Net income	—	—	1,904	—	—	1,904
Other comprehensive loss, net of tax	—	—	—	—	(42)	(42)
Repurchase and retirement of common stock (357,817 shares)	(4)	(4,389)	—	—	—	(4,393)
Nonvested stock awards-stock-based compensation expense	—	377	—	—	—	377
Cash dividends declared on common stock ($0.05 per share)	—	—	(1,010)	—	—	(1,010)
ESOP shares earned	—	45	—	243	—	288
Balance at March 31, 2016	$ 199	$ 180,830	$ 37,008	$ (9,054)	$ 505	$ 209,488
Balance at January 1, 2017	$ 192	$ 173,047	$ 39,483	$ (8,318)	$ 376	$ 204,780
Net income	—	—	1,881	—	—	1,881
Other comprehensive loss, net of tax	—	—	—	—	(13)	(13)
Net exercise of stock options (192,215 shares)	2	(1,220)	—	—	—	(1,218)
Prepayment of ESOP Share Acquisition Loan	(8)	(7,185)	—	8,318	—	1,125
Repurchase and retirement of common stock (232,045 shares)	(2)	(3,377)	—	—	—	(3,379)
Cash dividends declared on common stock ($0.06 per share)	—	—	(1,155)	—	—	(1,155)
Balance at March 31, 2017	$ 184	$ 161,265	$ 40,209	$ —	$ 363	$ 202,021

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$1,881	$1,904
Adjustments to reconcile to net income to net cash from operating activities		
Provision for (recovery of) loan losses	161	(490)
Prepayment of ESOP Share Acquisition Loan	1,125	—
ESOP shares earned	—	288
Stock–based compensation expense	—	377
Depreciation and amortization	958	939
Amortization of premiums and discounts on securities and loans	(65)	(37)
Amortization of core deposit intangible	129	136
Amortization of servicing assets	31	31
Net change in net deferred loan origination costs	129	(40)
Net loss on sale of other real estate owned	16	38
Net gain on sale of loans	(7)	(18)
Net gain on sale of securities	—	(46)
Loans originated for sale	(239)	(360)
Proceeds from sale of loans	246	378
Other real estate owned valuation adjustments	20	119
Net change in:		
Accrued interest receivable	(97)	(120)
Earnings on bank owned life insurance	(63)	(51)
Other assets	1,834	2,198
Accrued interest payable and other liabilities	(2,701)	(218)
Net cash from operating activities	3,358	5,028
Cash flows from investing activities		
Securities		
Proceeds from maturities	13,623	17,453
Proceeds from principal repayments	637	1,126
Proceeds from sales of securities	—	46
Purchases of securities	(17,302)	(15,293)
Loans receivable		
Loan participations sold	1,615	—
Principal payments on loans receivable	136,090	106,840
Purchase of loans	(20,406)	—
Originated for investment	(125,813)	(106,884)
Proceeds of redemption of Federal Home Loan Bank of Chicago stock	3,514	—
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(11)	—
Proceeds from sale of other real estate owned	494	1,290
Purchase of premises and equipment, net	(179)	(96)
Net cash from (used in) investing activities	(7,738)	4,482

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

	Three Months Ended March 31, 2017	2016
Cash flows from financing activities		
Net change in deposits	$(10,108)	$51,770
Net change in borrowings	977	(46,697)
Net change in advance payments by borrowers for taxes and insurance	(1,973)	(2,614)
Repurchase and retirement of common stock	(3,379)	(4,393)
Cash dividends paid on common stock	(1,155)	(1,010)
Shares retired for tax liability	(1,200)	—
Net cash used in financing activities	(16,838)	(2,944)
Net change in cash and cash equivalents	(21,218)	6,566
Beginning cash and cash equivalents	96,684	59,377
Ending cash and cash equivalents	$75,466	$65,943
Supplemental disclosures of cash flow information:		
Interest paid	$1,243	$766
Income taxes paid	1	60
Loans transferred to other real estate owned	1,936	65

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois (the "Company"), is the owner of all of the issued and outstanding capital stock of BankFinancial, NA (the "Bank"). The interim unaudited consolidated financial statements include the accounts of and transactions of BankFinancial Corporation, the Bank, and the Bank's wholly-owned subsidiaries, Financial Assurance Services, Inc. and BF Asset Recovery Corporation (collectively, "the Company"), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three month period ended March 31, 2017 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2017.

Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

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

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

These unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on the consolidated financial statements as the majority of our business transactions will not be subject to this pronouncement.

On January 5, 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our Statement of Operations.

BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The pronouncement will require some revision to our disclosures within the consolidated financial statements and we are currently evaluating the impact.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement are less than one percent of our current total assets.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 was effective January 1, 2017. This new pronouncement reduces the effective tax rate reported as existing vested stock options are exercised. The amount of the impact on the effective tax rate is determined by the number of stock options exercised and the stock price of the Company when the stock options are exercised. Excess tax benefits and deficiencies are recorded in the tax expense.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our initial review indicates that we have maintained sufficient historical loan data to support the requirements of this pronouncement. We are currently evaluating various loss methodologies to determine their correlation to our various loan categories historical performance.

In March of 2017, the FASB issued ASU No. 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”). This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset dates), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. Accordingly, effective January of 2017, we early adopted the pronouncement. Adoption of the new pronouncement was immaterial to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2017	2016
Net income available to common stockholders	$1,881	$ 1,904
Average common shares outstanding	19,243,941	20,155,541
Less:		
Unearned ESOP shares	(600,947)	(719,109)
Unvested restricted stock shares	(940)	(7,881)
Weighted average common shares outstanding	18,642,054	19,428,551
Add - Net effect of dilutive unvested restricted stock	5,462	2,939
Diluted weighted average common shares outstanding	18,647,516	19,431,490
Basic earnings per common share	$0.10	$ 0.10
Diluted earnings per common share	$0.10	$ 0.10
Number of antidilutive stock options excluded from the diluted earnings per share calculation	—	1,752,156
Weighted average exercise price of anti-dilutive option shares	$—	$ 12.30

NOTE 3 - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2017				
Certificates of deposit	$ 89,926	$ —	$ —	$ 89,926
Equity mutual fund	500	—	(1)	499
Mortgage-backed securities - residential	13,907	622	(20)	14,509
Collateralized mortgage obligations - residential	5,293	15	(27)	5,281
SBA-guaranteed loan participation certificates	15	—	—	15
	$ 109,641	$ 637	$ (48)	$ 110,230
December 31, 2016				
Certificates of deposit	$ 85,938	$ —	$ —	$ 85,938
Equity mutual fund	500	—	(1)	499
Mortgage-backed securities - residential	14,561	644	(21)	15,184
Collateralized mortgage obligations - residential	5,587	15	(28)	5,574
SBA-guaranteed loan participation certificates	17	—	—	17
	$ 106,603	$ 659	$ (50)	$ 107,212

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 3 - SECURITIES (continued)

The mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at March 31, 2017 and December 31, 2016.

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

	March 31, 2017	
	Amortized Cost	Fair Value
Due in one year or less	$89,926	$89,926
Equity mutual fund	500	499
Mortgage-backed securities - residential	13,907	14,509
Collateralized mortgage obligations - residential	5,293	5,281
SBA-guaranteed loan participation certificates	15	15
	$109,641	$110,230

Sales of securities were as follows:

	Three Months Ended March 31,	
	2017	2016
Proceeds	$ —	$ 46
Gross gains	—	46

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2017						
Equity Mutual Fund	$499	$ (1)	$—	$ —	$499	$ (1)
Mortgage-backed securities - residential	1,179	(20)	—	—	1,179	(20)
Collateralized mortgage obligations - residential	2,720	(17)	976	(10)	3,696	(27)
	$4,398	$ (38)	$976	$ (10)	$5,374	$ (48)
December 31, 2016						
Equity Mutual Fund	$499	$ (1)	$—	$ —	$499	$ (1)
Mortgage-backed securities - residential	1,187	(21)	—	—	1,187	(21)
Collateralized mortgage obligations - residential	3,691	(18)	1,028	(10)	4,719	(28)
	$5,377	$ (40)	$1,028	$ (10)	$6,405	$ (50)

The Company evaluates marketable investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under current accounting guidance, which generally provides

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 3 - SECURITIES (continued)

that if a marketable security is in an unrealized loss position, whether due to general market conditions or industry or issuer-specific factors, the holder of the securities must assess whether the impairment is other-than-temporary. Certain mortgage-backed securities and collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at March 31, 2017, but the unrealized losses were not considered significant under the Company’s impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.

NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

	March 31, 2017	December 31, 2016
One-to-four family residential real estate	$122,310	$135,218
Multi-family mortgage	549,829	542,887
Nonresidential real estate	179,896	182,152
Construction and land	1,354	1,302
Commercial loans	105,671	103,063
Commercial leases	364,768	352,539
Consumer	1,896	2,255
	1,325,724	1,319,416
Net deferred loan origination costs	1,534	1,663
Allowance for loan losses	(7,971)	(8,127)
Loans, net	$1,319,287	$1,312,952

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

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
March 31, 2017						
One-to-four family residential real estate	$—	$ 993	$993	$4,869	$117,441	$122,310
Multi-family mortgage	—	3,704	3,704	703	549,126	549,829
Nonresidential real estate	—	1,732	1,732	—	179,896	179,896
Construction and land	—	33	33	—	1,354	1,354
Commercial loans	—	807	807	—	105,671	105,671
Commercial leases	—	685	685	—	364,768	364,768
Consumer	—	17	17	—	1,896	1,896
	$—	$ 7,971	$7,971	$5,572	$1,320,152	1,325,724
Net deferred loan origination costs						1,534
Allowance for loan losses						(7,971)
Loans, net						$1,319,287

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 4 - LOANS RECEIVABLE (continued)

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2016						
One-to-four family residential real estate	$—	$ 1,168	$1,168	$4,962	$130,256	$135,218
Multi-family mortgage	—	3,647	3,647	787	542,100	542,887
Nonresidential real estate	26	1,768	1,794	260	181,892	182,152
Construction and land	—	32	32	—	1,302	1,302
Commercial loans	—	733	733	—	103,063	103,063
Commercial leases	—	714	714	—	352,539	352,539
Consumer	—	39	39	—	2,255	2,255
	$26	$ 8,101	$8,127	$6,009	$1,313,407	1,319,416
Net deferred loan origination costs						1,663
Allowance for loan losses						(8,127)
Loans, net						$1,312,952

Activity in the allowance for loan losses is as follows:

	Three Months Ended March 31,	
	2017	2016
Beginning balance	$8,127	$9,691
Loans charged off:		
One-to-four family residential real estate	(171)	(52)
Multi-family mortgage	(3)	(45)
Nonresidential real estate	(165)	(3)
Consumer	—	(16)
	(339)	(116)
Recoveries:		
One-to-four family residential real estate	6	81
Multi-family mortgage	11	137
Construction and land	—	35
Commercial loans	5	77
Consumer	—	1
	22	331
Net recoveries (charge-offs)	(317)	215
Provision for (recovery of) loan losses	161	(490)
Ending balance	$7,971	$9,416

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BANKFINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 4 - LOANS RECEIVABLE (continued)

Impaired loans

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

Loan principal balance
Less unapplied payments
Plus negative unapplied balance
Less escrow balance
Plus negative escrow balance
Plus unamortized net deferred loan costs
Less unamortized net deferred loan fees
Plus unamortized premium
Less unamortized discount
Less previous charge-offs
Plus recorded accrued interest
Less reserve for uncollected interest
= Recorded investment

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

					Three months ended March 31, 2017	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
March 31, 2017						