FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429
FORM 10-Q

(Mark one)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2020

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ________ to ________.

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine **(State or other jurisdiction of incorporation or organization)**	**01-0029040** **(I.R.S. Employer Identification No.)**
27 Pearl Street, Portland, Maine **(Address of principal executive offices)**	**04101** **(Zip Code)**

(207) 786-3245
(Registrant's telephone number, including area code)

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

Voting Common Stock, $1.00 par value	**NBN**	**The NASDAQ Stock Market LLC**
(Title of each class)	**(Trading Symbol)**	**(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 (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 subjected to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "accelerated filer," and "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of February 1, 2021, the registrant had outstanding 8,344,797 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NORTHEAST BANK
BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except share and per share data)

	December 31, 2020	June 30, 2020
Assets		
Cash and due from banks	$ 3,264	$ 2,795
Short-term investments	106,096	140,862
Total cash and cash equivalents	109,360	143,657
Available-for-sale debt securities, at fair value	62,149	64,918
Equity securities, at fair value	7,275	7,239
Total investment securities	69,424	72,157
Residential real estate loans held for sale	161	601
SBA loans held for sale	-	28,852
Total loans held for sale	161	29,453
Loans:		
Commercial real estate	700,413	679,537
Commercial and industrial	226,770	212,769
Residential real estate	73,060	77,722
Consumer	1,334	1,574
Total loans	1,001,577	971,602
Less: Allowance for loan losses	9,926	9,178
Loans, net	991,651	962,424
Premises and equipment, net	12,539	9,670
Real estate owned and other repossessed collateral, net	2,866	3,274
Federal Home Loan Bank stock, at cost	1,390	1,390
Loan servicing rights, net	2,035	2,113
Bank-owned life insurance	17,286	17,074
Other assets	27,380	16,423
Total assets	$ 1,234,092	$ 1,257,635
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 127,944	$ 94,749
Savings and interest checking	185,465	137,824
Money market	309,658	302,343
Time	360,870	477,436
Total deposits	983,937	1,012,352
Federal Home Loan Bank advances	15,000	15,000
Paycheck Protection Program Liquidity Facility advances	-	12,440
Subordinated debt	14,995	14,940
Lease liability	6,796	4,496
Other liabilities	31,402	33,668
Total liabilities	1,052,130	1,092,896
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2020 and June 30, 2020	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,344,797 and 8,153,841 shares issued and outstanding at December 31, 2020 and June 30, 2020, respectively	8,345	8,154
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; zero and 44,783 shares issued and outstanding at December 31, 2020 and June 30, 2020, respectively	-	45
Additional paid-in capital	69,499	68,302
Retained earnings	105,766	89,960
Accumulated other comprehensive loss	(1,648)	(1,722)
Total shareholders' equity	181,962	164,739
Total liabilities and shareholders' equity	$ 1,234,092	$ 1,257,635

The accompanying notes are an integral part of these unaudited financial statements.

NORTHEAST BANK
STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands, except share and per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Interest and dividend income:				
Interest and fees on loans	$ 18,108	$ 19,490	$ 36,213	$ 39,193
Interest on available-for-sale securities	193	442	483	893
Other interest and dividend income	54	326	142	665
Total interest and dividend income	18,355	20,258	36,838	40,751
Interest expense:				
Deposits	2,529	4,181	5,587	8,497
Federal Home Loan Bank advances	126	218	250	343
Paycheck Protection Program Liquidity Facility	-	-	2	-
Subordinated debt	282	282	563	563
Obligation under capital lease agreements	30	32	55	68
Total interest expense	2,967	4,713	6,457	9,471
Net interest and dividend income before provision for loan losses	15,388	15,545	30,381	31,280
Provision for loan losses	365	243	742	106
Net interest and dividend income after provision for loan losses	15,023	15,302	29,639	31,174
Noninterest income:				
Fees for other services to customers	488	414	988	827
Gain on sales of PPP loans	4	-	1,114	-
Gain on sales of SBA loans	-	304	-	556
Gain on sales of residential loans held for sale	19	212	102	425
Net unrealized gain (loss) on equity securities	(16)	(25)	(16)	15
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	(187)	314	(344)	312
Correspondent fee income	6,082	-	10,829	-
Bank-owned life insurance income	106	108	212	350
Other noninterest income	1	10	28	28
Total noninterest income	6,497	1,337	12,913	2,513
Noninterest expense:				
Salaries and employee benefits	5,971	5,926	12,322	12,312
Occupancy and equipment expense	1,047	849	1,974	1,747
Professional fees	443	445	806	837
Data processing fees	1,066	1,002	2,090	1,986
Marketing expense	120	55	161	148
Loan acquisition and collection expense	824	481	1,513	1,092
FDIC insurance premiums (credits)	101	(1)	205	(19)
Intangible asset amortization	-	109	-	217
Other noninterest expense	856	923	1,290	1,824
Total noninterest expense	10,428	9,789	20,361	20,144
Income before income tax expense	11,092	6,850	22,191	13,543
Income tax expense	2,916	1,983	6,221	3,901
Net income	$ 8,176	$ 4,867	$ 15,970	$ 9,642
Weighted-average shares outstanding:				
Basic	8,244,068	9,048,171	8,220,604	9,046,004
Diluted	8,309,252	9,223,137	8,312,330	9,217,544
Earnings per common share:				
Basic	$ 0.99	$ 0.54	$ 1.94	$ 1.07
Diluted	0.98	0.53	1.92	1.05
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.02	$ 0.02

The accompanying notes are an integral part of these unaudited financial statements.

NORTHEAST BANK
STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Net income	$ 8,176	$ 4,867	$ 15,970	$ 9,642
Other comprehensive income, before tax:				
Available-for-sale debt securities:				
Change in net unrealized gain on available-for-sale debt securities	(152)	61	(394)	102
Derivatives and hedging activities:				
Change in accumulated loss on effective cash flow hedges	312	438	496	(13)
Total other comprehensive income, before tax	160	499	102	89
Income tax expense related to other comprehensive income	43	134	28	22
Other comprehensive income, net of tax	117	365	74	67
Comprehensive income	$ 8,293	$ 5,232	$ 16,044	$ 9,709

The accompanying notes are an integral part of these unaudited financial statements.

NORTHEAST BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except share and per share data)

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at September 30, 2019	-	$ -	8,994,129	$ 8,994	44,783	$ 45	$ 78,231	$ 72,267	$ (1,436)	$ 158,101
Net income	-	-	-	-	-	-	-	4,867	-	4,867
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	365	365
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(95)	-	(95)
Stock-based compensation	-	-	-	-	-	-	166	-	-	166
Issuance of restricted common stock	-	-	35,000	35	-	-	(35)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(23,500)	(24)	-	-	23	-	-	(1)
Stock options exercised, net	-	-	1,601	2	-	-	(5)	-	-	(3)
Balance at December 31, 2019	-	$ -	9,007,230	$ 9,007	44,783	$ 45	$ 78,380	$ 77,039	$ (1,071)	$ 163,400
Balance at September 30, 2020	-	$ -	8,147,003	$ 8,147	44,783	$ 45	$ 68,452	$ 97,672	$ (1,765)	$ 172,551
Net income	-	-	-	-	-	-	-	8,176	-	8,176
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	117	117
Conversions between voting common stock and non-voting common stock, net	-	-	44,783	45	(44,783)	(45)	-	-	-	-
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(82)	-	(82)
Stock-based compensation	-	-	-	-	-	-	235	-	-	235
Stock options exercised, net	-	-	153,011	153	-	-	812	-	-	965
Balance at December 31, 2020	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,499	$ 105,766	$ (1,648)	$ 181,962

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at June 30, 2019	-	$ -	8,997,326	$ 8,997	44,783	$ 45	$ 78,095	$ 67,581	$ (1,138)	$ 153,580
Net income	-	-	-	-	-	-	-	9,642	-	9,642
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	67	67
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(184)	-	(184)
Stock-based compensation	-	-	-	-	-	-	554	-	-	554
Issuance of restricted common stock	-	-	40,000	40	-	-	(40)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(34,800)	(35)	-	-	(194)	-	-	(229)
Stock options exercised, net	-	-	4,704	5	-	-	(35)	-	-	(30)
Balance at December 31, 2019	-	$ -	9,007,230	$ 9,007	44,783	$ 45	$ 78,380	$ 77,039	$ (1,071)	$ 163,400
Balance at June 30, 2020	-	$ -	8,153,841	$ 8,154	44,783	$ 45	$ 68,302	$ 89,960	$ (1,722)	$ 164,739
Net income	-	-	-	-	-	-	-	15,970	-	15,970
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	74	74
Conversions between voting common stock and non-voting common stock, net	-	-	44,783	45	(44,783)	(45)	-	-	-	-
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(164)	-	(164)
Stock-based compensation	-	-	-	-	-	-	508	-	-	508
Cancellation and forfeiture of restricted common stock	-	-	(6,838)	(7)	-	-	(123)	-	-	(130)
Stock options exercised, net	-	-	153,011	153	-	-	812	-	-	965
Balance at December 31, 2020	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,499	$ 105,766	$ (1,648)	$ 181,962

The accompanying notes are an integral part of these unaudited financial statements.

NORTHEAST BANK
STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Operating activities:		
Net income	$ 15,970	$ 9,642
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	742	106
(Gain) loss recognized on real estate owned, other repossessed collateral and premises and equipment, net	344	(312)
Net unrealized loss (gain) on equity securities	16	(15)
Accretion of loans, net	(5,407)	(3,981)
Amortization of subordinated debt issuance costs	55	55
Originations of loans held for sale	(59,278)	(22,651)
Net proceeds from sales of loans held for sale	59,993	28,808
Gain on sales of PPP loans	(1,114)	-
Gain on sales of residential loans held for sale	(102)	(425)
Gain on sales of SBA and other loans held for sale	-	(556)
Net decrease in servicing rights	78	427
Amortization of intangible assets	-	217
Bank-owned life insurance income, net	(212)	(350)
Depreciation and amortization of premises and equipment	1,240	1,261
Deferred income tax benefit	(1,487)	-
Stock-based compensation	508	554
Amortization of available-for-sale debt securities, net	172	131
Changes in other assets and liabilities:		
Other assets	(9,497)	3,775
Other liabilities	(1,770)	(2,741)
Net cash provided by operating activities	251	13,945
Investing activities:		
Purchases of available-for-sale debt securities	(25,512)	(9,056)
Proceeds from maturities and principal payments on investment securities, net	27,662	11,821
Loan purchases	(95,862)	(93,462)
Loan originations, principal collections, and purchased loan paydowns, net	100,108	67,470
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(1,172)	(515)
Purchases of Federal Home Loan Bank stock	-	(1,752)
Proceeds from life insurance death benefits	-	549
Proceeds from sales of real estate owned and other repossessed collateral	1,042	19
Net cash provided by (used in) investing activities	6,266	(24,926)
Financing activities:		
Net decrease in deposits	(28,415)	(3,462)
Proceeds from Federal Home Loan Bank advances	-	45,000
Repayments under Paycheck Protection Program Liquidity Facility, net	(12,440)	-
Repayment of lease liability	(630)	(681)
Dividends paid on common stock	(164)	(184)
Cancellation and forfeiture of restricted common stock	(130)	(229)
Stock options exercised, net	965	(30)
Net cash provided by (used in) financing activities	(40,814)	40,414
Net change in cash and cash equivalents	(34,297)	29,433
Cash and cash equivalents, beginning of period	143,657	56,907
Cash and cash equivalents, end of period	$ 109,360	$ 86,340
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 985	$ 650
Capitalization of lease liability	2,930	5,554

The accompanying notes are an integral part of these unaudited financial statements.

1. Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Northeast Bank (the “Bank”). These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2020 (“Fiscal 2020”) included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation (“FDIC”).

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into in June 2020. As a result of this agreement, when the third party purchases Small Business Association’s Paycheck Protection Program (“PPP”) loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank’s correspondent relationship with the Federal Reserve. During the three and six months ended December 31, 2020, the Bank received $495 thousand and $5.8 million in correspondent fees, respectively. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the original lives of the related loans (approximately two years). For the quarter and six months ended December 31, 2020, the Bank recognized $1.1 million and $1.9 million in correspondent fee income, respectively.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. As the third party has not received payments on PPP loans, as of December 31, 2020, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the original lives of the related loans (approximately two years). During the three and six months ended December 31, 2020, the Bank recognized $5.0 million and $8.9 million in net servicing income, respectively. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

2. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) (“ASU 2016-13”). This guidance is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB issued ASU 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates (“ASU 2019-10”), which delays the effective date for ASU 2016-13 for smaller reporting companies, which allows the Bank to adopt the standard on July 1, 2023. Management has elected to delay the adoption of ASU 2016-13. Management has engaged a third-party service provider to assist in implementation, and is in the process of identifying the methodologies necessary to implement the guidance.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements (Topic 820) (“ASU 2018-13”). This update modifies disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This includes removing requirements related to transfers between Level 1 and Level 2, the policy of timing of transfers between levels, and the valuation process for Level 3 fair value measurements, modifying disclosure requirements related to investments in certain entities that calculate net asset value, and adding disclosure requirements for changes in unrealized gains and losses for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance did not have a significant impact on the Bank’s financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes ("ASU 2018-16"). This guidance permits the use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate, in addition to the London Interbank Offered Rate ("LIBOR") swap rate due to concerns about the sustainability of LIBOR. The amendments in this update were required to be adopted concurrently with ASU 2017-12. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) ("ASU 2020-04"). This guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this Update are effective for all entities as of March 12, 2020 through December 12, 2022. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

3. Securities

The following presents a summary of the amortized cost, gross unrealized holding gains and losses, and fair value of investment securities.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020		(In thousands)		
U.S. Government agency securities	$ 51,431	$ 194	$ -	$ 51,625
Agency mortgage-backed securities	10,284	240	-	10,524
Total available-for-sale debt securities	61,715	434	-	62,149
Equity investments measured at net asset value	7,238	37	-	7,275
Total securities	$ 68,953	$ 471	$ -	$ 69,424
June 30, 2020				
U.S. Government agency securities	$ 51,020	$ 483	$ -	$ 51,503
Agency mortgage-backed securities	13,070	345	-	13,415
Total available-for-sale debt securities	64,090	828	-	64,918
Equity investments measured at net asset value	7,187	52	-	7,239
Total securities	$ 71,277	$ 880	$ -	$ 72,157

At December 31, 2020, the Bank held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the three or six months ended December 31, 2020 or 2019. At December 31, 2020, securities with a fair value of $62.1 million were pledged as collateral to secure potential or outstanding Federal Home Loan Bank of Boston ("FHLBB") advances.

The Bank had no securities in loss positions at December 31, 2020 and June 30, 2020.

There were no other-than-temporary impairment losses on securities during the three or six months ended December 31, 2020 and 2019.

At December 31, 2020, all of the Bank's securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The unrealized gains on the Bank's securities at December 31, 2020 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's investment portfolio, management of the Bank considers the Bank's ability and intent to hold such securities to maturity or recovery of cost.

The securities measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of December 31, 2020, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 3.66 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of December 31, 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 23,008	$ 23,142
Due after one year through five years	28,423	28,483
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,431	51,625
Agency mortgage-backed securities	10,284	10,524
Total available-for-sale debt securities	$ 61,715	$ 62,149

4. Loans, Allowance for Loan Losses and Credit Quality

Loans are carried at the principal amounts outstanding, or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees. Loan fees and certain direct origination costs are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off in full, the unamortized portion is recognized in interest income. Interest income is accrued based upon the daily principal amount outstanding, except for loans on nonaccrual status.

Loans purchased by the Bank are accounted for under ASC 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). At acquisition, the effective interest rate is determined based on the discount rate that equates the present value of the Bank's estimate of cash flows with the purchase price of the loan. Prepayments are not assumed in determining a purchased loan's effective interest rate and income accretion. The application of ASC 310-30 limits the yield that may be accreted on the purchased loan, or the "accretable yield," to the excess of the Bank's estimate, at acquisition, of the expected undiscounted principal, interest, and other cash flows over the Bank's initial investment in the loan. The excess of contractually required payments receivable over the cash flows expected to be collected on the loan represents the purchased loan's "nonaccretable difference." Subsequent improvements in expected cash flows of loans with nonaccretable differences result in a prospective increase to the loan's effective yield through a reclassification of some, or all, of the nonaccretable difference to accretable yield. The effect of subsequent credit-related declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectability of interest or principal of the loan has been impaired. Loans accounted for under ASC 310-30 are placed on nonaccrual when it is not possible to reach a reasonable expectation of the timing and amount of cash flows to be collected on the loan. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest on nonaccrual loans is accounted for on a cash-basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal and interest is reasonably assured and the loan has performed for a reasonable period of time.

In cases where a borrower experiences financial difficulty and the Bank makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, maturity forbearances, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as a TDR. Accordingly, the Company does not account for such loan modifications as TDRs. As of December 31, 2020, the Bank granted such short-term deferments on loan balances of $189.3 million. Of the $189.3 million of loan deferrals, $142.7 million were full payment deferrals, of which only $26.4 million are still on deferral. The remaining $46.6 million of deferrals were interest-only deferrals, of which only $6.7 million are still on deferral. For loans accounted for under ASC 310-30, the Bank evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Bank's expectations at acquisition, the modified loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

The composition of the Bank’s loan portfolio is as follows on the dates indicated:

	December 31, 2020			June 30, 2020		
	Originated	Purchased	Total	Originated	Purchased	Total
			(In thousands)			
Commercial real estate	$ 247,054	$ 408,922	$ 655,976	$ 262,142	$ 374,545	$ 636,687
Commercial and industrial	221,979	431	222,410	208,169	355	208,524
SBA	48,797	-	48,797	47,095	-	47,095
Residential real estate	63,829	9,231	73,060	65,998	11,724	77,722
Consumer	1,334	-	1,334	1,574	-	1,574
Total loans	$ 582,993	$ 418,584	$ 1,001,577	$ 584,978	$ 386,624	$ 971,602

Total loans include deferred loan origination fees, net, of $411 thousand as of December 31, 2020 and $336 thousand as of June 30, 2020.

Past Due and Nonaccrual Loans

The following is a summary of past due and nonaccrual loans:

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
December 31, 2020				(In thousands)				
Originated portfolio:								
Commercial real estate	$ 8	$ 145	$ -	$ 5,618	$ 5,771	$ 241,283	$ 247,054	$ 6,089
Commercial and industrial	36	-	-	173	209	221,770	221,979	173
SBA	398	91	-	2,983	3,472	45,325	48,797	4,045
Residential real estate	510	239	-	189	938	62,891	63,829	6,676
Consumer	40	10	-	15	65	1,269	1,334	29
Total originated portfolio	992	485	-	8,978	10,455	572,538	582,993	17,013
Purchased portfolio:								
Commercial real estate	3,545	1,389	-	6,566	11,500	397,422	408,922	11,985
Commercial and industrial	-	-	-	64	64	367	431	181
Residential real estate	-	-	-	1,121	1,121	8,110	9,231	1,330
Total purchased portfolio	3,545	1,389	-	7,751	12,685	405,899	418,584	13,497
Total loans	$ 4,537	$ 1,874	$ -	$ 16,729	$ 23,140	$ 978,437	$ 1,001,577	$ 30,510
June 30, 2020								
Originated portfolio:								
Commercial real estate	$ -	$ 26	$ -	$ 3,864	$ 3,890	$ 258,252	$ 262,142	$ 4,585
Commercial and industrial	18	-	-	216	234	207,935	208,169	216
SBA	-	34	-	2,982	3,016	44,079	47,095	4,118
Residential real estate	-	-	-	180	180	65,818	65,998	832
Consumer	6	12	-	9	27	1,547	1,574	29
Total originated portfolio	24	72	-	7,251	7,347	577,631	584,978	9,780
Purchased portfolio:								
Commercial real estate	731	1,066	-	6,071	7,868	366,677	374,545	9,946
Commercial and industrial	-	-	-	57	57	298	355	210
Residential real estate	-	-	-	1,169	1,169	10,555	11,724	1,169
Total purchased portfolio	731	1,066	-	7,297	9,094	377,530	386,624	11,325
Total loans	$ 755	$ 1,138	$ -	$ 14,548	$ 16,441	$ 955,161	$ 971,602	$ 21,105

Allowance for Loan Losses and Impaired Loans

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than the point at which a loan is 180 days past due if the loan balance exceeds the fair value of the collateral, less estimated costs to sell. For commercial loans, a charge-off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of general and specific reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the appropriateness of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: residential real estate, commercial real estate, commercial and industrial, consumer, purchased loans, and SBA loans. Risk characteristics relevant to each portfolio segment are as follows:

> Commercial real estate: Loans in this segment are primarily income-producing properties. For owner-occupied properties, the cash flows are derived from an operating business, and the underlying cash flows may be adversely affected by deterioration in the financial condition of the operating business. The underlying cash flows generated by non-owner occupied properties may be adversely affected by increased vacancy rates. Management periodically obtains rent rolls and operating statements, with which it monitors the cash flows of these loans. Adverse developments in either of these areas will have an adverse effect on the credit quality of this segment. For purposes of the allowance for loan losses, this segment also includes construction loans.
>
> Commercial and industrial: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. This segment also includes loans to non-bank lenders, which are generally secured by a collateral assignment of the notes and mortgages on loans originated by the non-bank lenders. Weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

Purchased: Loans in this segment are typically secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the Bank's National Lending Division. Loans acquired by the National Lending Division are, with limited exceptions, performing loans at the date of purchase. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of non-owner occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type. Loans in this segment are evaluated for impairment under ASC 310-30. The Bank reviews expected cash flows from purchased loans on a quarterly basis. The effect of a decline in expected cash flows subsequent to the acquisition of the loan is recognized through a specific allocation in the allowance for loan losses.

SBA: Loans in this segment are comprised of both commercial real estate and commercial and industrial loans to small businesses, underwritten and originated by the Bank's national SBA group ("SBA Division"). Loans are underwritten and originated primarily in accordance with SBA 7(a) guidelines, and are partially guaranteed by the SBA. Loans are primarily secured by income-producing properties and/or assets of the businesses or borrowers. Adverse developments in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

Residential real estate: All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality, loan-to-value ratio and income of the individual borrower. The overall health of the economy, particularly unemployment rates and housing prices, has a significant effect on the credit quality in this segment. For purposes of the Bank's allowance for loan loss calculation, home equity loans and lines of credit are included in residential real estate.

Consumer: Loans in this segment are generally secured, and repayment is dependent on the credit quality of the individual borrower. Repayment of consumer loans is generally based on the earnings of individual borrowers, which may be adversely impacted by regional labor market conditions.

The general component of the allowance for loan losses for originated loans is based on historical loss experience adjusted for qualitative factors stratified by loan segment. The Bank does not weight periods used in that analysis to determine the average loss rate in each portfolio segment. This historical loss factor is adjusted for the following qualitative factors:

- Levels and trends in delinquencies;
- Trends in the volume and nature of loans;
- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff;
- Trends in portfolio concentration;
- National and local economic trends and conditions;
- Effects of changes or trends in internal risk ratings; and
- Other effects resulting from trends in the valuation of underlying collateral.

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan.

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. For the purchased loan segment, a loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to realize cash flows as expected at acquisition. For loans accounted for under ASC 310-30 for which cash flows can reasonably be estimated, loan impairment is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to changes in interest rate indices and other non-credit related factors, discounted at the loan's effective interest rate assumed at acquisition. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the scheduled principal and interest payments when due.

The following table sets forth activity in the Bank's allowance for loan losses.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
Three Months Ended December 31, 2020							
Beginning balance	$ 2,613	$ 1,013	$ 4,840	$ 408	$ 32	$ 630	$ 9,536
Provision (credit)	(172)	297	360	(101)	11	(30)	365
Recoveries	-	-	22	1	-	9	32
Charge-offs	-	-	-	-	(7)	-	(7)
Ending balance	$ 2,441	$ 1,310	$ 5,222	$ 308	$ 36	$ 609	$ 9,926
Three Months Ended December 31, 2019							
Beginning balance	$ 1,839	$ 691	$ 1,841	$ 365	$ 49	$ 495	$ 5,280
Provision (credit)	59	143	(123)	43	19	102	243
Recoveries	-	2	-	-	1	-	3
Charge-offs	-	-	(10)	(35)	(39)	(37)	(121)
Ending balance	$ 1,898	$ 836	$ 1,708	$ 373	$ 30	$ 560	$ 5,405

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
Six Months Ended December 31, 2020							
Beginning balance	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Provision (credit)	374	353	223	(143)	15	(80)	742
Recoveries	-	-	22	2	-	9	33
Charge-offs	(10)	-	-	-	(8)	(9)	(27)
Ending balance	$ 2,441	$ 1,310	$ 5,222	$ 308	$ 36	$ 609	$ 9,926
Six Months Ended December 31, 2019							
Beginning balance	$ 2,065	$ 717	$ 1,974	$ 376	$ 50	$ 520	$ 5,702
Provision (credit)	(150)	104	(48)	58	20	122	106
Recoveries	-	19	-	-	3	-	22
Charge-offs	(17)	(4)	(218)	(61)	(43)	(82)	(425)
Ending balance	$ 1,898	$ 836	$ 1,708	$ 373	$ 30	$ 560	$ 5,405

The following table sets forth information regarding the allowance for loan losses by portfolio segment and impairment methodology.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
December 31, 2020				(In thousands)			
Allowance for loan losses:							
Individually evaluated	$ 14	$ 289	$ 743	$ 75	$ 7	$ -	$ 1,128
Collectively evaluated	2,427	1,021	4,479	233	29	-	8,189
ASC 310-30	-	-	-	-	-	609	609
Total	$ 2,441	$ 1,310	$ 5,222	$ 308	$ 36	$ 609	$ 9,926
Loans:							
Individually evaluated	$ 6,439	$ 7,073	$ 8,043	$ 9,279	$ 68	$ 24,094	$ 54,996
Collectively evaluated	240,615	214,906	40,754	54,550	1,266	-	552,091
ASC 310-30	-	-	-	-	-	394,490	394,490
Total	$ 247,054	$ 221,979	$ 48,797	$ 63,829	$ 1,334	$ 418,584	$ 1,001,577
June 30, 2020							
Allowance for loan losses:							
Individually evaluated	$ 14	$ 103	$ 759	$ 90	$ 3	$ -	$ 969
Collectively evaluated	2,063	854	4,218	359	26	-	7,520
ASC 310-30	-	-	-	-	-	689	689
Total	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Loans:							
Individually evaluated	$ 4,813	$ 7,116	$ 4,243	$ 2,574	$ 76	$ 14,111	$ 32,933
Collectively evaluated	257,329	201,053	42,852	63,424	1,498	-	566,156
ASC 310-30	-	-	-	-	-	372,513	372,513
Total	$ 262,142	$ 208,169	$ 47,095	$ 65,998	$ 1,574	$ 386,624	$ 971,602

The following table sets forth information regarding impaired loans. Loans accounted for under ASC 310-30 that have performed based on cash flow and accretable yield expectations determined at date of acquisition are not considered impaired assets and have been excluded from the tables below.

	December 31, 2020			June 30, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 6,005	$ 6,005	$ -	$ 4,660	$ 4,660	$ -
Commercial and industrial	-	-	-	6,900	6,900	-
SBA	1,379	1,425	-	2,185	2,185	-
Residential real estate	7,429	7,429	-	1,624	1,624	-
Consumer	44	44	-	49	49	-
Purchased:						
Commercial real estate	16,602	19,683	-	9,168	11,299	-
Commercial and industrial	68	114	-	69	114	-
Residential real estate	2,130	2,233	-	1,169	1,190	-
Total	33,657	36,933	-	25,824	28,021	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	434	434	14	153	153	14
Commercial and industrial	7,073	7,073	289	216	216	103
SBA	6,664	6,664	743	2,058	2,058	759
Residential real estate	1,850	1,850	75	950	950	90
Consumer	24	24	7	27	27	3
Purchased:						
Commercial real estate	5,181	6,413	497	3,564	4,353	548
Commercial and industrial	113	157	112	141	186	141
Residential real estate	-	-	-	-	-	-
Total	21,339	22,615	1,737	7,109	7,943	1,658
Total impaired loans	$ 54,996	$ 59,548	$ 1,737	$ 32,933	$ 35,964	$ 1,658

The following tables set forth information regarding interest income recognized on impaired loans.

	Three Months Ended December 31,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 3,783	$ 3	$ 4,036	$ 5
Commercial and industrial	3,450	-	6,983	58
SBA	1,737	(16)	2,803	10
Residential real estate	4,542	152	2,139	5
Consumer	46	1	105	1
Purchased:				
Commercial real estate	13,298	129	9,512	28
Commercial and industrial	68	-	219	-
Residential real estate	2,146	9	1,093	19
Total	29,070	278	26,890	126
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	1,840	-	845	3
Commercial and industrial	3,627	42	-	-
SBA	4,400	(57)	1,071	-
Residential real estate	1,948	31	1,573	17
Consumer	24	1	28	-
Purchased:				
Commercial real estate	5,507	43	5,168	41
Commercial and industrial	120	-	172	-
Residential real estate	-	-	-	-
Total	17,466	60	8,857	61
Total impaired loans	$ 46,536	$ 338	$ 35,747	$ 187

	Six Months Ended December 31,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 4,075	$ 4	$ 3,572	$ 11
Commercial and industrial	4,600	60	6,958	146
SBA	1,886	(16)	2,873	65
Residential real estate	3,569	159	2,609	18
Consumer	47	2	117	2
Purchased:				
Commercial real estate	11,921	156	8,972	107
Commercial and industrial	68	-	245	-
Residential real estate	1,820	21	796	19
Total	27,986	386	26,142	368
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	1,277	2	904	6
Commercial and industrial	2,490	42	1	-
SBA	3,619	(54)	825	-
Residential real estate	1,615	46	1,508	35
Consumer	25	2	31	-
Purchased:				
Commercial real estate	4,859	93	4,671	107
Commercial and industrial	127	-	181	-
Residential real estate	-	22	143	-
Total	14,012	153	8,264	148
Total impaired loans	$ 41,998	$ 539	$ 34,406	$ 516

Credit Quality

The Bank utilizes a ten-point internal loan rating system for commercial real estate, construction, commercial and industrial, and certain residential loans as follows:

Loans rated 1-6: Loans in these categories are considered “pass” rated loans. Loans in categories 1-5 are considered to have low to average risk. Loans rated 6 are considered marginally acceptable business credits and have more than average risk.

Loans rated 7: Loans in this category are considered “special mention.” These loans show signs of potential weakness and are being closely monitored by management.

Loans rated 8: Loans in this category are considered “substandard.” Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt.

Loans rated 9: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in one graded 8 with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans rated 10: Loans in this category are considered “loss” and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Bank formally reviews the credit quality and ratings of all loans subject to risk ratings. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. Risk ratings on purchased loans, with and without evidence of credit deterioration at acquisition, are determined relative to the Bank’s recorded investment in that loan, which may be significantly lower than the loan’s unpaid principal balance.

The following tables present the Bank's loans by risk rating.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[1]	Purchased Portfolio	Total
			(In thousands)			
December 31, 2020						
Loans rated 1- 6	$ 239,813	$ 214,904	$ 38,471	$ 26,341	$ 399,408	$ 918,937
Loans rated 7	3,178	6,900	6,446	6,031	6,518	29,073
Loans rated 8	4,063	175	3,880	35	12,658	20,811
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 247,054	$ 221,979	$ 48,797	$ 32,407	$ 418,584	$ 968,821
June 30, 2020						
Loans rated 1- 6	$ 257,157	$ 201,051	$ $ 38,054	$ 28,740	$ 371,354	$ 896,356
Loans rated 7	401	6,900	5,055	32	3,893	16,281
Loans rated 8	4,584	218	3,986	35	11,377	20,200
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 262,142	$ 208,169	$ $ 47,095	$ 28,807	$ 386,624	$ 932,837

(1) Certain of the Bank's loans made for commercial purposes, but secured by residential collateral, are rated under the Bank's risk-rating system.

Troubled Debt Restructurings

The following table shows the Bank's post-modification balance of TDRs by type of modification.

	Three Months Ended December 31,				Six Months Ended December 31,			
	2020		2019		2020		2019	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
				(Dollars in thousands)				
Extended maturity	4	$ 6,540	1	$ 147	6	$ 9,612	4	$ 779
Adjusted interest rate	-	-	-	-	-	-	-	-
Rate and maturity	2	3,101	-	-	4	4,251	-	-
Principal/interest deferment	4	5,617	4	328	4	5,617	5	382
	10	$ 15,258	5	$ 475	14	$ 19,480	9	$ 1,161

The following table shows loans modified in a TDR and the change in the recorded investment subsequent to the modifications occurring.

	Three Months Ended December 31,					
	2020			2019		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
			(Dollars in thousands)			
Originated portfolio:						
Residential real estate	1	$ 6,000	$ 6,000	3	$ 190	$ 190
Commercial real estate	1	3,549	3,874	-	-	-
Commercial and industrial	1	50	50	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	3	9,599	9,924	3	190	190
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	7	5,268	5,334	2	285	285
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	7	5,268	5,334	2	285	285
Total	10	$ 14,867	$ 15,258	5	$ 475	$ 475

	Six Months Ended December 31,					
	2020			2019		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	3	$ 7,150	$ 7,150	5	$ 362	$ 362
Commercial real estate	1	3,549	3,874	-	-	-
Commercial and industrial	1	50	50	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	5	10,749	11,074	5	362	362
Purchased portfolio:						
Residential real estate	1	790	790	-	-	-
Commercial real estate	8	7,550	7,616	4	799	799
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	9	8,340	8,406	4	799	799
Total	14	$ 19,089	$ 19,480	9	$ 1,161	$ 1,161

As of December 31, 2020, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three and six months ended December 31, 2020. One loan modified in a TDR in the last twelve months totaling $53 thousand defaulted during the three and six months ended December 31, 2019.

ASC 310-30 Loans

The following tables present a summary of loans accounted for under ASC 310-30 that were acquired by the Bank during the period indicated.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)			
Contractually required payments receivable	$ 113,907	$ 89,444	$ 121,129	$ 128,145
Nonaccretable difference	(2,118)	(1,117)	(2,943)	(1,223)
Cash flows expected to be collected	111,789	88,327	118,186	126,922
Accretable yield	(20,505)	(23,487)	(22,324)	(33,460)
Fair value of loans acquired	$ 91,284	$ 64,840	$ 95,862	$ 93,462

Certain loans accounted for under ASC 310-30 that were acquired by the Bank are not accounted for using the income recognition model because the Bank cannot reasonably estimate cash flows expected to be collected. These loans when acquired are placed on nonaccrual status. The carrying amounts of such loans are as follows.

	As of and for the Three Months Ended December 31,		As of and for the Six Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Loans acquired during the period	$ 643	$ 473	$ 1,035	$ 473
Loans at end of period	11,354	7,903	11,354	7,903

The following tables summarize the activity in the accretable yield for loans accounted for under ASC 310-30.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Beginning balance	$ 143,690	$ 144,998	$ 154,936	$ 146,995
Acquisitions	20,505	23,487	22,324	33,460
Accretion	(6,572)	(6,358)	(13,112)	(12,148)
Reclassifications from non-accretable difference to accretable yield	1,826	1,480	2,272	2,798
Disposals and other changes	(10,473)	(9,260)	(17,444)	(16,758)
Ending balance	$ 148,976	$ 154,347	$ 148,976	$ 154,347

The following table provides information related to the unpaid principal balance and carrying amounts of ASC 310-30 loans.

	December 31, 2020	June 30, 2020
	(In thousands)	
Unpaid principal balance	$ 442,922	$ 417,190
Carrying amount	406,714	383,142

5. Transfers and Servicing of Financial Assets

The Bank sells loans in the secondary market and, for certain loans, retains the servicing responsibility. Consideration for the sale includes the cash received, as well as the related servicing rights asset. The Bank receives fees for the services provided.

Capitalized servicing rights as of December 31, 2020 totaled $2.0 million, compared to $2.1 million as of June 30, 2020, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold during the three months ended December 31, 2020 totaled $1.6 million, compared to $10.8 million during the three months ended December 31, 2019. Mortgage loans sold during the six months ended December 31, 2020 totaled $6.4 million, compared to $21.7 million during the six months ended December 31, 2019. Mortgage loans serviced for others totaled $5.5 million at December 31, 2020 and $6.3 million at June 30, 2020. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $29.0 million and $18.4 million at December 31, 2020 and June 30, 2020, respectively.

The Bank sold no SBA loans during the quarter ended December 31, 2020, compared to $4.0 million during the three months ended December 31, 2019. The Bank sold no SBA loans during the six months ended December 31, 2020, compared to $6.4 million during the six months ended December 31, 2019. SBA loans serviced for others totaled $158.8 million at December 31, 2020 and $152.8 million at June 30, 2020.

Mortgage and SBA loans serviced for others are accounted for as sales and therefore are not included on the accompanying balance sheets. The risks inherent in mortgage servicing assets and SBA servicing assets relate primarily to changes in prepayments that result from shifts in interest rates.

Contractually specified servicing fees were $270 thousand and $192 thousand for the three months ended December 31, 2020 and 2019, respectively, and were included as a component of loan-related fees within noninterest income. Contractually specified servicing fees were $554 thousand and $364 thousand for the six months ended December 31, 2020 and 2019, respectively.

The significant assumptions used in the valuation of the servicing rights as of December 31, 2020 included a range of discount rates from 2.0% to 19.8% and a weighted average prepayment speed assumption of 18.8%.

6. Earnings Per Share (EPS)

EPS is computed by dividing net income allocated to common shareholders by the weighted-average common shares outstanding. The following table shows the weighted-average number of common shares outstanding for the periods indicated. Shares issuable relative to stock options granted have been reflected as an increase in the shares outstanding used to calculate diluted EPS, after applying the treasury stock method. The number of shares outstanding for basic and diluted EPS is presented as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands, except share and per share data)			
Net income	$ 8,176	$ 4,867	$ 15,970	$ 9,642
Weighted average shares used in calculation of basic EPS	8,244,068	9,048,171	8,220,604	9,046,004
Incremental shares from assumed exercise of dilutive securities	65,184	174,966	91,726	171,540
Weighted average shares used in calculation of diluted EPS	8,309,252	9,223,137	8,312,330	9,217,544
Basic earnings per common share	$ 0.99	$ 0.54	$ 1.94	$ 1.07
Diluted earnings per common share	$ 0.98	$ 0.53	$ 1.92	$ 1.05

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the three and six months ended December 31, 2020 and 2019.

7. Derivatives and Hedging Activities

The Bank has stand-alone derivative financial instruments in the form of swap agreements that derive their value from the underlying interest rate. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure arises in the event of nonperformance by the counterparties to these agreements, and is limited to the net difference between the calculated amounts to be received and paid, if any. Such differences, which represent the fair value of the derivative instruments, are reflected on the Bank's balance sheet as derivative assets and derivative liabilities. The Bank controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail to meet their obligations.

The Bank currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At December 31, 2020 and June 30, 2020, the Bank had posted cash collateral totaling $3.3 million with dealer banks related to derivative instruments in a net liability position.

The Bank does not offset fair value amounts recognized for derivative instruments. The Bank does not net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Risk Management Policies—Derivative Instruments

The Bank evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net income volatility within an assumed range of interest rates.

Interest Rate Risk Management—Cash Flow Hedging Instruments

The Bank uses variable rate debt as a source of funds for use in the Bank's lending and investment activities and other general business purposes. These debt obligations expose the Bank to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments.

Information pertaining to outstanding swap agreements is as follows:

December 31, 2020									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.24%	3.38%	n/a	$ (1,415)	$ (1,415)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.24%	3.23%	n/a	(951)	(951)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.24%	2.77%	n/a	(325)	(325)	Other Liabilities
$ 15,000							$ (2,691)	$ (2,691)	

June 30, 2020									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.30%	3.38%	n/a	$ (1,708)	$ (1,708)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.30%	3.23%	n/a	(1,094)	(1,094)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.30%	2.77%	n/a	(385)	(385)	Other Liabilities
$ 15,000							$ (3,187)	$ (3,187)	

During the three and six months ended December 31, 2020 and 2019, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three and six months ended December 31, 2020 and 2019 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. <u>Other Comprehensive Income</u>

The components of other comprehensive income are as follows:

	Three Months Ended December 31,					
	2020			2019		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized gain or loss on available-for-sale debt securities	$ (152)	$ (42)	$ (110)	$ 61	$ 16	$ 45
Change in accumulated loss on effective cash flow hedges	312	85	227	438	118	320
Total other comprehensive income	$ 160	$ 43	$ 117	$ 499	$ 134	$ 365

	Six Months Ended December 31,					
	2020			2019		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized gain or loss on available-for-sale debt securities	$ (394)	$ (106)	$ (288)	$ 102	$ 27	$ 75
Change in accumulated loss on effective cash flow hedges	496	134	362	(13)	(5)	(8)
Total other comprehensive income	$ 102	$ 28	$ 74	$ 89	$ 22	$ 67

Accumulated other comprehensive loss is comprised of the following:

	December 31, 2020	June 30, 2020
	(In thousands)	
Unrealized gain on available-for-sale debt securities	$ 434	$ 828
Tax effect	(117)	(223)
After tax amount	317	605
Unrealized loss on cash flow hedges	(2,691)	(3,187)
Tax effect	726	860
After tax amount	(1,965)	(2,327)
Accumulated other comprehensive loss	$ (1,648)	$ (1,722)

9. Commitments and Contingencies

Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and commitments to fund investments. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments with contractual amounts which represent credit risk are as follows:

	December 31, 2020	June 30, 2020
	(In thousands)	
Commitments to originate loans	$ 19,194	$ 28,709
Unused lines of credit	21,804	33,146
Standby letters of credit	2,323	2,323

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling $92 thousand and $52 thousand recorded in other liabilities at December 31, 2020 and June 30, 2020, respectively.

Contingencies

The Bank is party to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Bank's financial position or results of operations.

10. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Bank uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another. When market assumptions are not readily available, the Bank's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same.

ASC 820, Fair Value Measurement, defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Valuations based on significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Bank in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

*Valuation technique*s **-** There have been no changes in the valuation techniques used during the current period.

Transfers **-** There were no transfers of assets and liabilities measured at fair value on a recurring or nonrecurring basis during the current period.

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

Investment securities - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Examples of such instruments include publicly-traded common and preferred stocks. If quoted prices are not available, then fair values are estimated by using pricing models (*i.e.*, matrix pricing) and market interest rates and credit assumptions or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency and government-sponsored enterprise mortgage-backed securities, as well as certain preferred and trust preferred stocks. Level 3 securities are securities for which significant unobservable inputs are utilized.

Certain investments are measured at fair value using the net asset value per share as a practical expedient. These investments include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. The Bank's investment in securities either issued or guaranteed by the U.S. government or its agencies can be redeemed daily at the closing net asset value per share. The Bank's investment in SBA 7(a) loans can be redeemed quarterly with sixty days' notice. In accordance with ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (Or Its Equivalent), these investments have not been included in the fair value hierarchy.

Derivative financial instruments **-** The valuation of the Bank's interest rate swaps and caps are determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including forward interest rate curves and implied volatilities. Unobservable inputs, such as credit valuation adjustments are insignificant to the overall valuation of the Bank's derivative financial instruments. Accordingly, the Bank has determined that its interest rate derivatives fall within Level 2 of the fair value hierarchy.

The fair value of derivative loan commitments and forward loan sale agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2. The fair value of such instruments was nominal at each date presented.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:

Collateral dependent impaired loans **-** Valuations of impaired loans measured at fair value are determined by a review of collateral values. Certain inputs used in appraisals are not always observable, and therefore impaired loans are generally categorized as Level 3 within the fair value hierarchy.

Real estate owned and other repossessed collateral **-** The fair values of real estate owned and other repossessed collateral are estimated based upon appraised values less estimated costs to sell. Certain inputs used in appraisals are not always observable, and therefore may be categorized as Level 3 within the fair value hierarchy. When inputs used in appraisals are primarily observable, they are classified as Level 2.

Loan servicing rights **-** The fair value of the SBA and mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Certain inputs are not observable, and therefore loan servicing rights are generally categorized as Level 3 within the fair value hierarchy.

Fair Value of other Financial Instruments:

Cash and cash equivalents - The fair value of cash, due from banks, interest-bearing deposits and FHLBB overnight deposits approximates their relative book values, as these financial instruments have short maturities.

FHLBB stock - The carrying value of FHLBB stock approximates fair value based on redemption provisions of the FHLBB.

Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimates of maturity are based on the Bank's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic conditions, lending conditions and the effects of estimated prepayments.

Loans held for sale - The fair value of loans held-for-sale is estimated based on bid quotations received from loan dealers.

Interest receivable - The fair value of this financial instrument approximates the book value as this financial instrument has a short maturity. It is the Bank's policy to stop accruing interest on loans past due by more than 90 days. Therefore, this financial instrument has been adjusted for estimated credit losses.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Bank's net assets could increase.

FHLBB advances, lease liabilities and subordinated debentures - The fair value of the Bank's borrowings with the FHLBB is estimated by discounting the cash flows through maturity or the next re-pricing date based on current rates available to the Bank for borrowings with similar maturities. The fair value of the Bank's lease liabilities and subordinated debentures are estimated by discounting the cash flows through maturity based on current rates available to the Bank for borrowings with similar maturities.

Off-Balance Sheet Credit-Related Instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of such instruments was nominal at each date presented.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	Total	Level 1	Level 2	Level 3
December 31, 2020		(In thousands)		
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,625	$ -	$ 51,625	$ -
Agency mortgage-backed securities	10,524	-	10,524	-
Equity investments measured at net asset value[(1)]	7,275	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 2,691	$ -	$ 2,691	$ -
June 30, 2020				
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,503	$ -	$ 51,503	$ -
Agency mortgage-backed securities	13,415	-	13,415	-
Equity investments measured at net asset value[(1)]	7,239	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 3,187	$	$ 3,187	$ -

(1) In accordance with ASU 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the table is intended to permit reconciliation of the fair value amount to the financial statements.

Assets measured at fair value on a nonrecurring basis are summarized below.

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Collateral dependent impaired loans	$ 4,523	$ -	$ -	$ 4,523
Real estate owned and other repossessed collateral	2,866	-	-	2,866
Loan servicing rights	2,035	-	-	2,035

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Collateral dependent impaired loans	$ 3,095	$ -	$ -	$ 3,095
Real estate owned and other repossessed collateral	3,274	-	-	3,274
Loan servicing rights	2,113	-	-	2,113

The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a nonrecurring basis at the dates indicated.

	Fair Value		
	December 31, 2020	June 30, 2020	Valuation Technique
	(In thousands)		
Collateral dependent impaired loans	$ 4,523	$ 3,095	Appraisal of collateral(1)
Real estate owned and other repossessed collateral	2,866	3,274	Appraisal of collateral(1)
Loan servicing rights	2,035	2,113	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 15% to 96%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 18.8% to 19.9%. For discount rates, the range was 2.0% to 21.1%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the three and six months ended December 31, 2020 and 2019.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)			
Collateral dependent impaired loans	$ (117)	$ 16	$ (121)	$ (243)
Real estate owned and other repossessed collateral	(180)	314	(337)	314
Loan servicing rights	(233)	(54)	(106)	(128)
Total	$ (530)	$ 276	$ (564)	$ (57)

The following table presents the estimated fair value of the Bank's financial instruments.

	Carrying Amount	Total	Level 1	Level 2	Level 3
December 31, 2020			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 109,360	$ 109,360	$ 109,360	$ -	$ -
Securities	62,149	62,149	-	62,149	-
Equity investments measured at net asset value[1]	7,275	7,275	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	161	161	-	161	-
Loans, net	1,001,577	1,001,140	-	-	1,001,140
Accrued interest receivable	3,749	3,749	-	3,749	-
Financial liabilities:					
Deposits	983,937	987,526	-	987,526	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Lease liability	6,796	6,944	-	6,944	-
Subordinated debt	14,995	15,603	-	-	15,603
Interest rate swaps	2,691	2,691	-	2,691	-
June 30, 2020					
Financial assets:					
Cash and cash equivalents	$ 143,657	$ 143,657	$ 143,657	$ -	$ -
Securities	64,918	64,918	-	64,918	-
Equity investments measured at net asset value[1]	7,239	7,239	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	29,453	29,453	-	29,453	-
Loans, net	971,602	971,371	-	-	971,371
Accrued interest receivable	4,063	4,063	-	4,063	-
Financial liabilities:					
Deposits	1,012,352	1,019,120	-	1,019,120	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	12,440	12,440	-	12,440	-
Capital Lease Obligation	4,496	4,669	-	4,669	-
Subordinated debt	14,940	15,544	-	-	15,544
Interest rate swaps	3,187	3,187	-	3,187	-

(1) In accordance with ASU 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the table is intended to permit reconciliation of the fair value amount to the financial statements.

11. Subsequent Events

We evaluate subsequent events through the date of issuance in the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended December 31, 2020.

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

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the FDIC.

A Note about Forward Looking Statements

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to the financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss allowance adequacy, simulation of changes in interest rates, capital spending, finance sources and revenue sources of Northeast Bank ("we," "our," "us," "Northeast" or the "Bank"). These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward looking statements, which are based on various assumptions (some of which are beyond the Bank's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would".

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; continued deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions or legislative or regulatory initiatives; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; reputational risk relating to the Bank's participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; operational risks including, but not limited to, cybersecurity, fraud, natural disasters and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2020 as updated in the Bank's Quarterly Reports on Form 10-Q and other filings submitted to the FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

Business Overview

Northeast Bank, a Maine state-chartered bank originally organized in 1872, is a full-service financial institution.

On May 15, 2019, Northeast Bancorp, the Bank's former bank holding company, merged with and into the Bank, with the Bank continuing as the surviving entity (the "Reorganization"). The Reorganization eliminated the bank holding company structure and the Bank became the top-level company in the organization. Additionally, the commitments made by Northeast Bancorp to the Federal Reserve were replaced with the following standards relating to its capital levels and asset portfolio composition, which have been incorporated into the Bank's policies and procedures.

- Maintain a Tier 1 leverage ratio of at least 10% (subsequently lowered to 9%);
- Maintain a Total capital ratio of at least 13.5% (subsequently lowered to 12%);
- Limit purchased loans to 60% of total loans;
- Maintain a ratio of the Bank's loans to core deposits of not more than 125%; and

- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital.

These standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, while permitting further growth in the Bank’s loan portfolio. The Maine Bureau of Financial Institutions requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 12.0%

As of December 31, 2020, the Bank had total assets of $1.23 billion, total deposits of $983.9 million, and shareholders' equity of $182.0 million. We gather retail deposits through our nine full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is a highly unusual, unprecedented and evolving public health and economic crisis that may have a significant adverse impact on the economy, the banking industry and the Bank in future fiscal periods, all subject to a high degree of uncertainty.

On March 27, 2020, Congress passed, and the President signed, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to address the economic effects of the COVID-19 pandemic, including the establishment of participating in the Small Business Administration’s (the “SBA”) Paycheck Protection Program (the “PPP”). The CARES Act appropriated $349 billion for “paycheck protection loans” through the PPP. The amount appropriated for the PPP was subsequently increased to $659 billion. Additionally, on December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the “Economic Aid Act”) was enacted which, among other items provides for a third round of PPP loans.

- *Paycheck Protection Program (“PPP”)*. As of December 31, 2020, the Bank had originated more than 5,000 PPP loans totaling approximately $510.6 million. PPP loans are fully guaranteed by the U.S. government, have an initial term of up to five years and earn interest at rate of 1%. The Bank estimates that tens of thousands of jobs were positively impacted by the Bank’s participation in the PPP and currently expects that a significant portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As previously announced, the Bank has entered into an agreement with The Loan Source, Inc. (“Loan Source”) under which the Bank sold PPP loans originated by the Bank to Loan Source. The Bank has also contracted to act as the correspondent for Loan Source in connection with Loan Source’s pledge of PPP loans to the Federal Reserve’s Paycheck Protection Program Liquidity Facility (“PPPLF”). The PPPLF extends credit to depository institutions with a term of up to five years at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility.

- *Loan Deferrals*. As of December 31, 2020, the Bank granted short-term deferments on loan balances of $189.3 million. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided they perform in accordance with the modified terms. Of the $189.3 million of loan deferrals, $142.7 million were full payment deferrals, of which only $26.4 million are still on deferral. Of the full payment deferrals that have resumed payments, as of December 31, 2020, $113.5 million are current, $100 thousand are 30-59 days past due, $400 thousand are 60-89 days past due, and $2.3 million are greater than 90 days past due. The remaining $46.6 million of deferrals were interest-only deferrals, whereby the customer is required to make interest-only payments during the deferral period. Of the $46.6 million, as of December 31, 2020, all but $300 thousand of the interest-only loan payments are current.

Strategy

The Bank's goal is to prudently grow its franchise, while maintaining sound operations and risk management, by means of the following strategies:

Continuing to grow the National Lending Division’s national originated and purchased loan business. We purchase primarily commercial real estate loans nationally, at prices that on average have produced yields significantly higher than those available on our originated loan portfolio. We also originate loans nationally, taking advantage of our core expertise in underwriting and servicing national credits.

Continuing our community banking tradition. With a history that dates back to 1872, our Community Banking Division maintains its focus on sales and service, with the goal of attracting and retaining deposits, and serving the lending needs of retail and commercial customers within our core markets.

Generating deposits to fund our business. We offer a full line of deposit products through our nine-branch network located in the Community Banking Division’s market. ableBanking is a direct savings platform providing an additional channel to raise core deposits to fund our asset strategy.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in our Annual Report on Form 10-K for the year ended June 30, 2020, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported. There has been no material change in critical accounting policies during the three and six months ended December 31, 2020.

Overview

Net income increased by $3.3 million to $8.2 million for the three months ended December 31, 2020, compared to net income of $4.9 million for the three months ended December 31, 2019. The increase was primarily due to higher correspondent fee income, partially offset by higher income tax expense, higher noninterest expenses, lower noninterest income amounts excluding correspondent fee income, lower net interest income, and higher provision for loan losses.

Net income increased by $6.3 million to $16.0 million for the six months ended December 31, 2020, compared to net income of $9.7 million for the six months ended December 31, 2019. The increase was primarily due to higher correspondent fee income, partially offset by higher income tax expense, higher noninterest expenses, lower noninterest income amounts excluding correspondent fee income, lower net interest income, and higher provision for loan losses.

Financial Condition

Overview

As of December 31, 2020, total assets were $1.23 billion, a decrease of $23.5 million, or 1.8%, from total assets of $1.26 billion as of June 30, 2020. The principal components of the changes in the balance sheet follow:

The following table highlights the changes in the loan portfolio for the three and six months ended December 31, 2020:

Loan Portfolio Changes

	Three Months Ended December 31, 2020			
	December 31, 2020 Balance	September 30, 2020 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 418,584	$ 358,203	$ 60,381	16.86%
National Lending Originated	478,423	462,974	15,449	3.34%
SBA National	48,797	48,775	22	0.05%
Community Banking	55,773	62,158	(6,385)	(10.27%)
Total	$ 1,001,577	$ 932,110	$ 69,467	7.45%

	Six Months Ended December 31, 2020			
	December 31, 2020 Balance	June 30, 2020 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 418,584	$ 386,624	$ 31,960	8.27%
National Lending Originated	478,423	467,612	10,811	2.31%
SBA National	48,797	47,095	1,702	3.61%
Community Banking	55,773	70,271	(14,498)	(20.63%)
Total	$ 1,001,577	$ 971,602	$ 29,975	3.09%

Loans generated by the Bank's National Lending Division for the quarter ended December 31, 2020 totaled $175.9 million, which consisted of $91.3 million of purchased loans, at an average price of 93.4% of unpaid principal balance, and $84.6 million of originated loans.

An overview of the Bank's National Lending Division portfolio follows:

National Lending Portfolio

	Three Months Ended December 31,					
	2020			2019		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 97,759	$ 84,607	$ 182,366	$ 66,784	$ 98,563	$ 165,347
Net investment basis	91,284	84,607	175,891	64,840	98,563	163,403
Loan returns during the period:						
Yield	9.06%	6.87%	7.89%	9.76%	7.67%	8.57%
Total Return on Purchased Loans (1)	9.06%	6.87%	7.89%	10.21%	7.67%	8.77%

	Six Months Ended December 31,					
	2020			2019		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 103,588	$ 125,515	$ 229,103	$ 97,116	$ 139,100	$ 236,216
Net investment basis	95,862	125,515	221,377	93,462	139,100	232,562
Loan returns during the period:						
Yield	9.08%	6.95%	7.93%	9.74%	7.62%	8.52%
Total Return on Purchased Loans (1)	9.08%	6.95%	7.93%	9.98%	7.62%	8.61%
Total loans as of period end:						
Unpaid principal balance	$ 456,524	$ 478,423	$ 934,947	$ 401,393	$ 497,386	$ 898,779
Net investment basis	418,584	478,423	897,007	367,625	497,386	865,011

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales, gains on real estate owned and other noninterest income recorded during the period divided by the average invested balance, which includes purchased loans held for sale, on an annualized basis. The total return on purchased loans does not include the effect of purchased loan charge-offs or recoveries during the period. Total return on purchased loans is considered a non-GAAP financial measure. See reconciliation in below table entitled "Total Return on Purchased Loans."

Assets

Cash and Due from Banks, Short-Term Investments and Investment Securities

Cash and cash equivalents were $109.4 million as of December 31, 2020, a decrease of $34.3 million, or 23.9%, from $143.7 million at June 30, 2020. The decrease is primarily due to the decrease in deposits and repayment of PPPLF advances during the period.

Investment securities totaled $69.4 million as of December 31, 2020, compared to $72.2 million as of June 30, 2020, representing a decrease of $2.7 million, or 3.8%, primarily due to principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.6 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.6 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At December 31, 2020, securities with a fair value of $62.1 million were pledged for potential and outstanding borrowings.

Loans

The Bank's loan portfolio (excluding loans held for sale) by lending division follows:

	Community Banking	National Lending	SBA Division	Total	Percent of Total
December 31, 2020		(Dollars in thousands)			
Originated loans:					
Commercial real estate: non-owner occupied	$ 10,521	$ 166,255	$ 24,744	$ 201,520	20.12%
Commercial real estate: owner occupied	6,486	63,792	19,693	89,971	8.98%
Commercial and industrial	2,926	219,053	4,360	226,339	22.60%
Residential real estate	34,506	29,323	-	63,829	6.38%
Consumer	1,334	-	-	1,334	0.13%
Subtotal	55,773	478,423	48,797	582,993	58.21%
Purchased loans:					
Commercial real estate: non-owner occupied	-	255,644	-	255,644	25.52%
Commercial real estate: owner occupied	-	153,278	-	153,278	15.29%
Commercial and industrial	-	431	-	431	0.04%
Residential real estate	-	9,231	-	9,231	0.92%
Subtotal	-	418,584	-	418,584	41.79%
Total	$ 55,773	$ 897,007	$ 48,797	$ 1,001,577	100.00%
June 30, 2020					
Originated loans:					
Commercial real estate: non-owner occupied	$ 11,735	$ 180,261	$ 24,873	$ 216,869	22.32%
Commercial real estate: owner occupied	7,777	62,369	17,977	88,123	9.07%
Commercial and industrial	7,860	200,309	4,245	212,414	21.86%
Residential real estate	41,325	24,673	-	65,998	6.80%
Consumer	1,574	-	-	1,574	0.16%
Subtotal	70,271	467,612	47,095	584,978	60.21%
Purchased loans:					
Commercial real estate: non-owner occupied	-	238,429	-	238,429	24.54%
Commercial real estate: owner-occupied	-	136,116	-	136,116	14.00%
Commercial and industrial	-	355	-	355	0.04%
Residential real estate	-	11,724	-	11,724	1.21%
Subtotal	-	386,624	-	386,624	39.79%
Total	$ 70,271	$ 854,236	$ 47,095	$ 971,602	100.00%

Classification of Assets

Loans are classified as nonperforming when 90 or more days past due, unless a loan is well-secured and in the process of collection. Loans less than 90 days past due, for which collection of principal or interest is considered doubtful, also may be designated as nonperforming. In both situations, accrual of interest ceases. The Bank typically maintains such loans as nonperforming until the respective borrowers have demonstrated a sustained period of payment performance.

In cases where a borrower experiences financial difficulty and the Bank makes certain concessionary modifications, the loan is classified as a TDR. Concessionary modifications may include adjustments to interest rates, extensions of maturity, or other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

Other nonperforming assets include other real estate owned ("OREO") and other personal property securing loans repossessed by the Bank. The real estate and personal property collateral for commercial and consumer loans is recorded at fair value less estimated costs to sell upon repossession. Revenues and expenses are recognized in the period when received or incurred on OREO and in-substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

The following table details the Bank's nonperforming assets and other credit quality indicators as of December 31, 2020 and June 30, 2020. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Nonperforming Assets at December 31, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 8,329	$ 11,986	$ 20,315
Commercial and industrial	1,978	181	2,159
Residential real estate	6,676	1,330	8,006
Consumer	30	-	30
Total nonperforming loans	17,013	13,497	30,510
Real estate owned and other repossessed collateral	800	2,066	2,866
Total nonperforming assets	$ 17,813	$ 15,563	$ 33,376
Ratio of nonperforming loans to total loans			3.05%
Ratio of nonperforming assets to total assets			2.70%
Ratio of loans past due to total loans			2.31%
Nonperforming loans that are current			$ 1,989
Loans risk rated substandard or worse			$ 20,811
Troubled debt restructurings:			
On accrual status			$ 23,680
On nonaccrual status			$ 11,219

	Nonperforming Assets at June 30, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 6,861	$ 9,946	$ 16,807
Commercial and industrial	2,058	210	2,268
Residential real estate	832	1,169	2,001
Consumer	29	-	29
Total nonperforming loans	9,780	11,325	21,105
Real estate owned and other repossessed collateral	1,028	2,246	3,274
Total nonperforming assets	$ 10,808	$ 13,571	$ 24,379
Ratio of nonperforming loans to total loans			2.17%
Ratio of nonperforming assets to total assets			1.94%
Ratio of loans past due to total loans			1.69%
Nonperforming loans that are current			$ 5,703
Loans risk rated substandard or worse			$ 20,200
Troubled debt restructurings:			
On accrual status			$ 11,787
Nonaccrual status			$ 4,670

As of December 31, 2020, nonperforming assets totaled $33.4 million, or 2.70% of total assets, as compared to $24.4 million, or 1.94% of total assets, as of June 30, 2020. The increase was primarily due to two National Lending Division originated loans totaling $8.0 million and two National Lending Division purchased loans totaling $1.2 million that were placed on nonaccrual during the six months ended

December 31, 2020. Subsequent to December 31, 2020, a $6.0 million nonaccrual loan paid off in full.

OREO decreased by $408 thousand, or 12.5%, to $2.9 million at December 31, 2020, compared to $3.3 million at June 30, 2020. The decrease was the result of write-downs on two existing properties and the sale of another OREO property during the period.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to expense and by recoveries of loans previously charged-off and is reduced by loans being charged-off.

The Bank's allowance for loan losses amounted to $9.9 million as of December 31, 2020, compared to $9.2 million as of June 30, 2020. The increase in the period is primarily the result of increases in general qualitative factors due to prolonged impacts of the COVID-19 pandemic on collateral values, and the increase in specific reserves.

The following table details ratios related to the allowance for loan losses for the periods indicated.

	December 31, 2020	June 30, 2020	December 31, 2019
Allowance for loan losses to nonperforming loans	32.53%	43.49%	28.77%
Allowance for loan losses to total loans	0.99%	0.94%	0.54%
Last twelve months of net-charge offs to average loans	0.06%	0.10%	0.07%

While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Bank will not have to increase its provision for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors.

Other Assets

Premises and equipment, net, increased by $2.9 million, or 29.7%, to $12.5 million at December 31, 2020, compared to $9.7 million at June 30, 2020. The increase was primarily due to the capitalization of the Bank's right-of-use assets for two new leases, partially offset by depreciation for the period.

Loan servicing rights, net totaled $2.0 million and $2.1 million at December 31, 2020 and June 30, 2020, respectively. The $78 thousand decrease was primarily the result of the SBA loan payoffs, amortization, and the revaluation of the servicing rights performed on a quarterly basis.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased $212 thousand, or 1.2% to $17.3 million at December 31, 2020, compared to $17.1 million at June 30, 2020. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 8.3% of the Bank's regulatory total capital at December 31, 2020.

Deposits, FHLBB Advances, Subordinated Debt, Liquidity, and Capital

Deposits

The Bank's principal source of funding is its core deposit accounts. At December 31, 2020, non-maturity accounts and non-brokered insured time deposits represented 99.0% of total deposits.

Total deposits decreased by $28.4 million, or 2.8%, from June 30, 2020. The decrease was attributable to a decrease in time deposits of $116.6 million, or 24.4% due to intentional runoff. The decrease was partially offset by increases in demand deposits of $33.2 million, or 35.0%, savings and interest checking accounts of $47.6 million, or 34.6%, and money market deposits of $7.3 million, or 2.4%.

The composition of total deposits at December 31, 2020 and June 30, 2020 is as follows:

	December 31, 2020		June 30, 2020	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 127,944	13.00%	$ 94,749	9.36%
NOW accounts	148,012	15.04%	100,673	9.94%
Regular and other savings	37,453	3.81%	37,151	3.67%
Money market deposits	309,658	31.47%	302,343	29.87%
Total non-certificate accounts	623,067	63.32%	534,916	52.84%
Term certificates of $250 thousand or less	350,658	35.64%	464,237	45.86%
Term certificates greater than $250 thousand	10,212	1.04%	13,199	1.30%
Total certificate accounts	360,870	36.68%	477,436	47.16%
Total deposits	$ 983,937	100.00%	$ 1,012,352	100.00%

FHLBB Advances

Advances from the Federal Home Loan Bank of Boston (the "FHLBB") were $15.0 million at both December 31, 2020 and June 30, 2020. As of December 31, 2020, the Bank had pledged certain residential and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of December 31, 2020, securities with a fair value of $62.1 million were also pledged for potential and outstanding borrowings.

Subordinated Debt

On June 29, 2016, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which the Company issued subordinated notes equal to $15.1 million in aggregate principal amount with an interest rate of 6.75% fixed-to-floating maturing in 2026 ("subordinated notes"). The subordinated notes were assumed by the Bank as a result of the Reorganization in May 2019. The subordinated notes, net of issuance costs, totaled $15.0 million and $14.9 million at December 31, 2020 and June 30, 2020, respectively.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at December 31, 2020, in addition to traditional retail deposit products:

	As of December 31, 2020	
	(Dollars in thousands)	
Brokered time deposits	$ 308,523	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	191,859	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 517,882	

Retail deposits and other core deposit sources including deposit listing services are used by the Bank to manage its overall liquidity position. While we currently do not seek wholesale funding such as FHLBB advances and brokered deposits, the ability to raise them remains an important part of our liquidity contingency planning. Our liquidity position is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of our forecast assumptions may increase or decrease our overall available liquidity. To utilize the FHLBB advance capacity, the purchase of additional capital stock of the FHLBB may be required.

At December 31, 2020, the Bank had $506.0 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings or brokered deposits. This position represented 41.0% of total assets. The Bank also had $109.4 million of cash and cash equivalents at December 31, 2020.

Management believes that there are adequate funding sources to meet its liquidity needs for the foreseeable future. Primary funding sources are the repayment of principal and interest on loans, the renewal of time deposits, the potential for growth in the deposit base, and the credit availability from the FHLBB. Management does not believe that the terms and conditions that will be present at the renewal of these funding sources will significantly impact the Bank's operations, due to its management of the maturities of its assets and liabilities.

Capital

At December 31, 2020, shareholders' equity was $182.0 million, an increase of $17.2 million, or 10.5% from June 30, 2020. Book value per outstanding common share was $21.81 at December 31, 2020 and $20.09 at June 30, 2020.

As of December 31, 2020, the Bank's Tier 1 leverage capital ratio was 15.1%, compared to 13.4% at June 30, 2020, and the Total capital ratio was 20.4% at December 31, 2020, as compared to 19.6% at June 30, 2020. Capital ratios were affected by earnings during the six months ended December 31, 2020.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Regulations regarding prompt corrective actions define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized."

As of December 31, 2020 and June 30, 2020, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Common equity tier 1 capital, Total capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At December 31, 2020 and June 30, 2020, the Bank's ratios exceeded the regulatory requirements. Management believes that the Bank met all capital adequacy requirements to which they were subject as of December 31, 2020 and June 30, 2020. The Bank's regulatory capital ratios are set forth below as of December 31, 2020 and June 30, 2020.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(Dollars in thousands)						
December 31, 2020							
Common equity tier 1 capital to risk weighted assets	$ 183,578	17.93%	$ 46,080	≥4.5%	$ 66,560	≥6.5%	7.0%
Total capital to risk weighted assets	208,591	20.37%	81,920	≥8.0%	102,400	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	183,578	17.93%	61,440	≥6.0%	81,920	≥8.0%	8.5%
Tier 1 capital to average assets	183,578	15.07%	48,730	≥4.0%	60,913	≥5.0%	4.0%
June 30, 2020							
Common equity tier 1 capital to risk weighted assets	$ 166,423	17.13%	$ 43,730	≥4.5%	$ 63,166	≥6.5%	7.0%
Total capital to risk weighted assets	190,593	19.61%	77,742	≥8.0%	97,178	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	166,423	17.13%	58,307	≥6.0%	77,742	≥8.0%	8.5%
Tier 1 capital to average assets	166,423	13.36%	49,839	≥4.0%	62,299	≥5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Bank is required to maintain a capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses and to engage in share repurchases. The required amount of the capital conservation buffer is 2.5%.

Stock Repurchases

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remain available to repurchase. The repurchase program may be suspended or terminated at any time without prior notice and will expire October 21, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire July 21, 2021. No shares have been repurchased under this plan.

Off-Balance Sheet Financial Instruments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and commitments to fund investments. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized on the condensed balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

See Part I. Item I. "Notes to Unaudited Financial Statements – Note 9: Commitments and Contingencies" for further discussion.

Results of Operations

General

Net income increased by $3.3 million to $8.2 million for the three months ended December 31, 2020, compared to net income of $4.9 million for the three months ended December 31, 2019, due to higher correspondent fee income, partially offset by higher income tax expense, higher noninterest expenses, lower noninterest income amounts excluding correspondent fee income, lower net interest income, and higher provision for loan losses. Net income increased by $6.3 million to $16.0 million for the six months ended December 31, 2020, compared to net income of $9.7 million for the six months ended December 31, 2019, due to higher correspondent fee income, partially offset by higher income tax expense, higher noninterest expenses, lower noninterest income amounts excluding correspondent fee income, lower net interest income, and higher provision for loan losses.

Net Interest Income

Three Months Ended December 31, 2020 and 2019

Net interest and dividend income before provision for loan losses decreased by $157 thousand to $15.4 million for the quarter ended December 31, 2020, compared to $15.5 million for the quarter ended December 31, 2019. The decrease was primarily due to lower interest income earned on loans, partially offset by a decrease in deposit interest expense. The decrease in interest income earned on loans was primarily due to lower average balances and rates earned on the National Lending originated, SBA, and Community Bank portfolios, along with lower rates earned on the National Lending purchased portfolio, partially offset by higher average balances in the National Lending purchased portfolio. The decrease in deposit interest expense was due to lower rates, partially offset by higher average balances.

The following table summarizes interest income and related yields recognized on the loan portfolios:

	Interest Income and Yield on Loans					
	Three Months Ended December 31,					
	2020			2019		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 57,801	$ 658	4.52%	$ 85,989	$ 1,193	5.52%
SBA National	48,953	616	4.99%	57,371	1,003	6.96%
National Lending:						
Originated	450,698	7,801	6.87%	456,877	8,814	7.67%
Purchased	395,692	9,033	9.06%	345,748	8,480	9.76%
Total National Lending	846,390	16,834	7.89%	802,625	17,294	8.57%
Total	$ 953,144	$ 18,108	7.54%	$ 945,985	$ 19,490	8.20%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended December 31, 2019, transactional income decreased by $430 thousand for the quarter ended December 31, 2020, while regularly scheduled interest and accretion increased by $588 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended December 31, 2020 was 9.1%, a decrease from 10.2% for the quarter ended December 31, 2019. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended December 31,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 7,113	7.13%	$ 6,525	7.51%
Transactional income:				
Gain on real estate owned	-	0.00%	395	0.45%
Accelerated accretion and loan fees	1,920	1.93%	1,955	2.25%
Total transactional income	1,920	1.93%	2,350	2.70%
Total	$ 9,033	9.06%	$ 8,875	10.21%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales and gains on real estate owned recorded during the period divided by the average invested balance, which includes purchased loans held for sale, on an annualized basis. The total return does not include the effect of purchased loan charge-offs or recoveries in the quarter. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended December 31, 2020 and 2019.

	Three Months Ended December 31,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 70,409	$ 193	1.09%	$ 81,009	$ 442	2.17%
Loans (1) (2) (3)	953,144	18,108	7.54%	945,985	19,490	8.20%
Federal Home Loan Bank stock	1,390	13	3.71%	2,079	18	3.44%
Short-term investments (4)	143,272	41	0.11%	77,268	308	1.59%
Total interest-earning assets	1,168,215	18,355	6.23%	1,106,341	20,258	7.28%
Cash and due from banks	3,058			2,781		
Other non-interest earning assets	46,730			42,725		
Total assets	$ 1,218,003			$ 1,151,847		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 128,337	$ 113	0.35%	$ 70,737	$ 77	0.43%
Money market accounts	310,074	377	0.48%	269,880	1,094	1.61%
Savings accounts	37,301	12	0.13%	34,317	15	0.17%
Time deposits	388,669	2,027	2.07%	464,424	2,995	2.57%
Total interest-bearing deposits	864,381	2,529	1.16%	839,358	4,181	1.98%
Federal Home Loan Bank advances	15,000	126	3.33%	36,250	218	2.39%
Subordinated debt	14,981	282	7.47%	14,871	282	7.54%
Capital lease obligations	6,501	30	1.83%	5,365	32	2.37%
Total interest-bearing liabilities	900,863	2,967	1.31%	895,844	4,713	2.09%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	123,413			85,894		
Other liabilities	17,193			9,940		
Total liabilities	1,041,469			991,678		
Shareholders' equity	176,534			160,169		
Total liabilities and shareholders' equity	$ 1,218,003			$ 1,151,847		
Net interest income		$ 15,388			$ 15,545	
Interest rate spread			4.92%			5.19%
Net interest margin (5)			5.23%			5.59%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.
(2) Includes loans held for sale.
(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.
(4) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.
(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.

The following table presents the extent to which changes in volume and rates of interest earning assets and interest-bearing liabilities have affected the Bank’s interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) change attributable to a combination of changes in rate and volume (change in rates multiplied by the changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Three Months Ended December 31, 2020 Compared to 2019		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (52)	$ (197)	$ (249)
Loans	152	(1,534)	(1,382)
Federal Home Loan Bank stock	(6)	1	(5)
Short-term investments	147	(414)	(267)
Total interest-earning assets	241	(2,144)	(1,903)
Interest-bearing liabilities:			
Interest-bearing deposits	(266)	(1,386)	(1,652)
Federal Home Loan Bank advances	(158)	66	(92)
Subordinated debt	2	(2)	-
Lease liability	6	(8)	(2)
Total interest-bearing liabilities	(416)	(1,330)	(1,746)
Total change in net interest income	$ 657	$ (814)	$ (157)

Six Months Ended December 31, 2020 and 2019

Net interest and dividend income before provision for loan losses decreased by $899 thousand to $30.4 million for the six months ended December 31, 2020, compared to $31.3 million for the six months ended December 31, 2019. The decrease was primarily due to lower interest income earned on loans, securities and other earning assets, partially offset by a decrease in deposit interest expense. The decrease in interest income earned on loans was primarily due to lower average balances and rates earned on the National Lending originated, SBA, and Community Bank portfolios, along with lower rates earned on the National Lending purchased portfolio, partially offset by higher average balances in the National Lending purchased portfolio. The decrease in deposit interest expense was due to lower rates, partially offset by higher average balances.

The following table summarizes interest income and related yields recognized on the loan portfolios:

	Interest Income and Yield on Loans					
	2020			2019		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 61,620	$ 1,502	4.84%	$ 88,187	$ 2,458	5.54%
SBA National	48,444	1,171	4.80%	60,062	2,472	8.19%
SBA PPP	8,608	81	1.87%	-	-	0.00%
National Lending:						
Originated	451,721	15,830	6.95%	463,092	17,742	7.62%
Purchased	384,946	17,629	9.08%	337,284	16,521	9.74%
Total National Lending	836,667	33,549	7.93%	800,376	34,263	8.52%
Total	$ 955,339	$ 36,213	7.52%	$ 948,625	$ 39,193	8.22%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the six months ended December 31, 2019, transactional income for the six months ended December 31, 2020 decreased by $384 thousand, while regularly scheduled interest and accretion increased by $1.1 million due to the increase in average balances. The total return on purchased loans for the six months ended December 31, 2020 was 9.1%, a decrease from 10.0% for the six months ended December 31, 2019. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Six Months Ended December 31,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 13,677	7.05%	$ 12,580	7.42%
Transactional income:				
Gain on real estate owned	-	0.00%	395	0.24%
Accelerated accretion and loan fees	3,952	2.03%	3,941	2.32%
Total transactional income	3,952	2.03%	4,336	2.56%
Total	$ 17,629	9.08%	$ 16,916	9.98%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales and gains on real estate owned recorded during the period divided by the average invested balance, which includes purchased loans held for sale, on an annualized basis. The total return does not include the effect of purchased loan charge-offs or recoveries in the quarter. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the six months ended December 31, 2020 and 2019.

	Six Months Ended December 31,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 71,275	$ 483	1.34%	$ 81,545	$ 893	2.18%
Loans (1) (2) (3)	955,339	36,213	7.52%	948,625	39,193	8.22%
Federal Home Loan Bank stock	1,390	46	6.56%	1,669	37	4.41%
Short-term investments (4)	156,440	96	0.12%	68,808	628	1.82%
Total interest-earning assets	1,184,444	36,838	6.17%	1,100,647	40,751	7.36%
Cash and due from banks	2,992			2,705		
Other non-interest earning assets	42,792			39,127		
Total assets	$ 1,230,228			$ 1,142,479		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 125,991	$ 240	0.38%	$ 68,071	$ 137	0.40%
Money market accounts	311,173	912	0.58%	267,379	2,162	1.61%
Savings accounts	37,414	26	0.14%	34,397	30	0.17%
Time deposits	412,248	4,409	2.12%	474,270	6,168	2.59%
Total interest-bearing deposits	886,826	5,587	1.25%	844,117	8,497	2.00%
Federal Home Loan Bank advances	15,000	250	3.31%	25,625	343	2.66%
PPPLF advances	879	2	0.45%	-	-	0.00%
Subordinated debt	14,967	563	7.46%	14,856	563	7.54%
Capital lease obligations	5,404	55	2.02%	5,527	68	2.45%
Total interest-bearing liabilities	923,076	6,457	1.39%	890,125	9,471	2.12%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	117,857			85,491		
Other liabilities	17,441			8,760		
Total liabilities	1,058,374			984,376		
Shareholders' equity	171,854			158,103		
Total liabilities and shareholders' equity	$ 1,230,228			$ 1,142,479		
Net interest income		$ 30,381			$ 31,280	
Interest rate spread			4.78%			5.24%
Net interest margin (5)			5.09%			5.65%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.
(2) Includes loans held for sale.
(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.
(4) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.
(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) change attributable to a combination of changes in rate and volume (change in rates multiplied by the changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Six Months Ended December 31, 2020 Compared to 2019		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (102)	$ (308)	$ (410)
Loans	284	(3,264)	(2,980)
Federal Home Loan Bank stock	(7)	16	9
Short-term investments	371	(903)	(532)
Total interest-earning assets	546	(4,459)	(3,913)
Interest-bearing liabilities:			
Interest-bearing deposits	(342)	(2,568)	(2,910)
Federal Home Loan Bank advances	(164)	71	(93)
PPPLF advances	2	-	2
Subordinated debt	5	(5)	-
Lease liability	(2)	(11)	(13)
Total interest-bearing liabilities	(501)	(2,513)	(3,014)
Total change in net interest income	$ 1,047	$ (1,946)	$ (899)

Provision for Loan Losses

Quarterly, the Bank determines the amount of the allowance for loan losses that is appropriate to provide for losses inherent in the Bank's loan portfolios, with the provision for loan losses determined by the net change in the allowance for loan losses. For loans accounted for under ASC 310-30, a provision for loan loss is recorded when estimates of future cash flows are lower than had been previously expected. See Part I. Item I. "Notes to Unaudited Financial Statements — Note 4: Loans, Allowance for Loan Losses and Credit Quality" for further discussion.

Three Months Ended December 31, 2020 and 2019

The provision for loan losses for the three months ended December 31, 2020 and 2019 increased by $122 thousand to $365 thousand. The increase in the Bank's provision for loan losses was primarily the result of increases in general qualitative factors due to prolonged impacts of the COVID-19 pandemic on collateral values, and the increase in specific reserves during the quarter ended December 31, 2020.

Six Months Ended December 31, 2020 and 2019

The provision for loan losses for the six months ended December 31, 2020 and 2019 increased by $636 thousand to $742 thousand. The increase in the Bank's provision for loan losses was primarily the result of increases in general qualitative factors due to prolonged impacts of the COVID-19 pandemic on collateral values, and the increase in specific reserves during the six months ended December 31, 2020.

Noninterest Income

Three Months Ended December 31, 2020 and 2019

Noninterest income increased by $5.2 million for the quarter ended December 31, 2020, compared to the quarter ended December 31, 2019, principally due to the following:

- An increase in correspondent fee income of $6.1 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. The correspondent arrangement provides for the Bank to earn a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the quarter is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 1,061
Amortization of Purchased Accrued Interest	613
Earned Net Servicing Interest	4,408
Total	$ 6,082

A summary of PPP loans purchased by Loan Source and related amounts that the Bank will earn over the expected life of the loans is as follows:

Quarter	PPP Loans Purchased by Loan Source	Correspondent Fee	Purchased Accrued Interest(1)	Total(2)
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Q2 FY 2021	1,333,500	495	3,766	4,261
Total	$ 4,718,500	$ 8,734	$ 7,258	$ 15,992
Less amounts recognized in Q2 FY 21		(1,061)	(613)	(1,674)
Less amounts recognized in previous quarters		(842)	(279)	(1,121)
Amount remaining to be recognized		$ 6,831	$ 6,366	$ 13,197

(1) - Northeast Bank's share
(2) - Expected to be recognized into income over approximately 2 years

The increase in correspondent fee income was partially offset by:

- An increase in loss on OREO of $501 thousand, due to a write-down and net loss on sales of OREO properties in the quarter ended December 31, 2020, as compared to a gain recorded on the transfer of a loan into OREO in the quarter ended December 31, 2019;
- A decrease in gain on sale of SBA loans of $304 thousand, due to no SBA loans sold in the quarter ended December 31, 2020; and

- A decrease in gain on sale of residential loans held for sale of $193 thousand, due to lower volume of loans sold as compared to the quarter ended December 31, 2019.

Six Months Ended December 31, 2020 and 2019

Noninterest income increased by $10.4 million for the six months ended December 31, 2020, compared to the six months ended December 31, 2019, principally due to the following:

- An increase in correspondent fee income of $10.8 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. The correspondent arrangement provides for the Bank to earn a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the year-to-date is comprised of the following components:

	Income Earned (In thousands)	
Correspondent Fee	$	1,883
Amortization of Purchased Accrued Interest		892
Earned Net Servicing Interest		8,054
Total	$	10,829

- An increase in gain on sale of PPP loans of $1.1 million, due to the sale of $53.7 million of PPP loans, which resulted in a net gain based on the recognition of net deferred fees, partially offset by purchase price discounts during the six months ended December 31, 2020; partially offset by,
- An increase in loss on OREO of $501 thousand, due to write-downs and net loss on sales of OREO properties in the six months ended December 31, 2020, as compared to a gain recorded on the transfer of a loan into OREO in the six months ended December 31, 2019;
- A decrease in gain on sale of SBA loans of $556 thousand, due to no SBA loans sold in the six months ended December 31, 2020; and
- A decrease in gain on sale of residential loans held for sale of $323 thousand, due to lower volume of loans sold as compared to the six months ended December 31, 2019.

Noninterest Expense

Three Months Ended December 31, 2020 and 2019

Noninterest expense increased by $639 thousand for the quarter ended December 31, 2020 compared to the quarter ended December 31, 2019, primarily due to the following:

- An increase in loan expense of $343 thousand, primarily due to $424 thousand in correspondent expenses associated with the Loan Source arrangement, partially offset by an increase of $120 thousand of collection expense reimbursements received during the quarter ended December 31, 2020;
- An increase in occupancy and equipment expense of $198 thousand, primarily due to increases in rent expense, depreciation and IT software expense in connection with the relocation of the Lewiston operations center and opening of a new office in New York City; and
- An increase in FDIC insurance premium expense of $102 thousand, due to credits received during the quarter ended December 31, 2019, which have now run out.

Six Months Ended December 31, 2020 and 2019

Noninterest expense increased by $639 thousand for the six months ended December 31, 2020 compared to the six months ended December 31, 2019, primarily due to the following:

- An increase in loan expense of $421 thousand, primarily due to $733 thousand in correspondent expenses associated with the Loan Source arrangement, partially offset by an increase of $316 thousand of collection expense reimbursements received during the six months ended December 31, 2020;
- An increase in occupancy and equipment expense of $227 thousand, primarily due to increases in rent expense, depreciation and IT software expense in connection with the relocation of the Lewiston operations center and opening of a new office in New York City; and
- An increase in FDIC insurance premium expense of $224 thousand, due to credits received during the six months ended December 31, 2019, which have now run out; partially offset by,
- A decrease in other noninterest expense of $534 thousand, primarily due to lower meals and entertainment expense during the six months ended December 31, 2020.

Income Taxes

Three Months Ended December 31, 2020 and 2019

Income tax expense increased by $933 thousand to $2.9 million, or an effective tax rate of 26.3%, for the quarter ended December 31, 2020, compared to $1.9 million, or an effective tax rate of 28.9%, for the quarter ended December 31, 2019. The increase in income tax expense is due to the increase in pre-tax income. The decrease in effective tax rate is primarily due to $472 thousand of tax benefits arising from the exercise of stock options during the quarter ended December 31, 2020.

Six Months Ended December 31, 2020 and 2019

Income tax expense increased by $2.3 million to $6.2 million, or an effective tax rate of 28.0%, for the six months ended December 31, 2020, compared to $3.9 million, or an effective tax rate of 28.8%, for the six months ended December 31, 2019. The decrease in effective tax rate is primarily due to an increase of $362 thousand in tax benefits arising from the exercise of stock options during the six months ended December 31, 2020 as compared to the six months ended December 31, 2019.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

The Bank maintains controls and procedures designed to ensure that information required to be disclosed in the reports the Bank files or submits under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the FDIC, and that such information is accumulated and communicated to the Bank's management, including the Chief Executive Officer and Chief Financial Officer (the Bank's principal executive officer and principal financial officer, respectively), as appropriate to allow for timely decisions regarding timely disclosure. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

The Bank's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation of the Bank's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2020.

There were no changes in the Bank's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2020 that have materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remain available to repurchase. The repurchase program may be suspended or terminated at any time without prior notice and will expire October 21, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire July 21, 2021. No shares have been repurchased under this plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

* Filed herewith
** Furnished herewith

SIGNATURES

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

Date: February 5, 2021

NORTHEAST BANK

By: /s/ Richard Wayne
Richard Wayne
President and Chief Executive Officer

By: /s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer

Exhibit 31.1 Certification of the Chief Executive Officer

Chief Executive Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, Richard Wayne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Northeast Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 5, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

Chief Financial Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, Jean-Pierre Lapointe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Northeast Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 5, 2021

/s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer

Exhibit 32.1.   Certificate of the Chief Executive Officer

Certification of the Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank for the dates and the periods covered by the Report.

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 5, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

Certification of the Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank for the dates and the periods covered by the Report.

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 5, 2021

/s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer