

PRUDENTIAL BANCORP, INC.
Form 10-K
December 20, 2013

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

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended SEPTEMBER 30, 2013

-or-

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-55084

PRUDENTIAL BANCORP, INC.
(Exact Name of Registrant as Specified in its Charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation or organization)

46-2935427
(IRS Employer Identification No.)

1834 WEST OREGON AVENUE 19145
PHILADELPHIA, PENNSYLVANIA (Zip Code)
(Address of Principal Executive Offices)

Registrant's telephone number: (including area code) (215) 755-1500

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value \$0.01 per share)	The Nasdaq Stock Market, LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the voting stock held by non-affiliates of Prudential Bancorp, Inc. of Pennsylvania (the predecessor to the Registrant) based on the closing price of \$9.17 on March 29, 2013, the last business day of the Registrant's second quarter was approximately \$17.6 million (10,023,495) shares outstanding less approximately 8.1 million shares held by affiliates at \$9.17 per share). Although, Prudential Mutual Holding Company and directors and executive officers of the Registrant and certain employee benefit plans were assumed to be "affiliates" of the Registrant for purposes of the calculation, the classification is not to be interpreted as an admission of such status.

As of the close of business on December 2, 2013, there were 9,544,809 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Definitive Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

Prudential Bancorp, Inc. and Subsidiaries
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 For the Fiscal Year Ended September 30, 2013

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Forward-looking Statements.

In addition to historical information, this Annual Report on Form 10-K includes certain “forward-looking statements” based on management’s current expectations. Prudential Bancorp, Inc.’s (the “Company” or “Prudential Bancorp”) actual results could differ materially, as such term is defined in the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, from management’s expectations. These forward looking statements are intended to be covered by the safe harbor for forward looking statements provided by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include statements regarding management’s current intentions, beliefs or expectations as well as the assumptions on which such statements are based. These forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are not subject to the Company’s control. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Company’s loan, investment and mortgage-backed securities portfolios, changes in accounting principles, policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company’s operations, markets, products, services and fees.

The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results that occur subsequent to the date such forward-looking statements are made.

PART I

Item 1. Business

General

Prudential Bancorp is a Pennsylvania corporation that was incorporated in June 2013 to be the successor corporation to Prudential Bancorp, Inc. of Pennsylvania (“Old Prudential Bancorp”), the former stock holding company for Prudential Savings Bank (the “Bank”), a Pennsylvania-chartered, FDIC-insured savings bank, upon completion of the mutual-to-stock conversion of Prudential Mutual Holding Company (the “MHC”), the former mutual holding company for Prudential Savings Bank.

The mutual-to-stock conversion was completed on October 9, 2013. In connection with the conversion, Prudential Bancorp sold 7,141,602 shares of common stock at \$10.00 per share in a public offering. In addition 2,403,207 shares were issued in exchange for the outstanding shares of common stock of Old Prudential Bancorp holding other than the MHC. Each share of Old Prudential Bancorp’s common stock owned by the public was exchanged for 0.9442 shares of Prudential Bancorp common stock. Gross proceeds from the conversion and offering were approximately \$71.4 million. Upon completion of the offering and the exchange 9,544,809 shares of common stock of Prudential Bancorp were issued and outstanding.

At September 30, 2013, the Company had \$145.7 million in subscriptions which were held in a deposit escrow account at the Bank.

Financial information presented in this annual report is derived from the consolidated financial statements of Old Prudential Bancorp and subsidiaries as of September 30, 2013.

Prudential Bancorp's business activities consist of the ownership of the Bank's common stock, and the management of the offering proceeds it retained. Prudential Bancorp does not own or lease any property. Instead, it uses the premises, equipment and other property of the Bank. Accordingly, the information set forth in the annual report, including the consolidated financial statements and related financial data, relates primarily to the Bank. As a bank holding company, Prudential Bancorp is subject to the regulation of the Board of Governors of the Federal Reserve System.

The Company's results of operations are primarily dependent on the results of the Bank. As of September 30, 2013, the Company, on a consolidated basis, had total assets of approximately \$607.9 million, total deposits of approximately \$542.7 million, and total stockholders' equity of approximately \$59.9 million.

The Bank is a community-oriented savings bank headquartered in South Philadelphia which was originally organized in 1886 as a Pennsylvania-chartered building and loan association known as "The South Philadelphia Building and Loan Association No. 2." The Bank grew through a number of mergers with other mutual institutions with the last merger being with Continental Savings and Loan Association in 1983. The Bank converted to a Pennsylvania-chartered savings bank in August 2004. The banking office network currently consists of the headquarters and main office and six full-service branch offices. Six of the banking offices are located in Philadelphia (Philadelphia County) and one is in Drexel Hill in neighboring Delaware County, Pennsylvania. The Bank maintains ATMs at six of the banking offices. We also provide on-line banking services.

We are primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. The Company's principal sources of funds are deposits, repayments of loans and mortgage-backed securities, maturities and calls of investment securities and interest-bearing deposits, funds provided from operations and funds borrowed from the Federal Home Loan Bank of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, construction and land development loans, non-residential or commercial real estate mortgage loans, home equity loans and lines of credit, commercial business loans and consumer loans. We are an active originator of residential home mortgage loans in the market area, including loans in excess of \$417,000 (which are referred to as "jumbo loans". Traditionally, the Bank focused on originating long-term single-family residential mortgage loans for portfolio. Although, we had been involved in construction lending beginning in fiscal 2003, we began to significantly increase our involvement in construction and land development lending. With the decline in real estate values starting in 2008, we curtailed new construction and land development lending, focused on working with our existing construction lending customers to complete projects that were underway and renewed our focus on residential lending. Construction and land development loans decreased from \$36.8 million or 13.9% of the total loan portfolio at September 30, 2009 to \$11.4 million or 3.7% of the total loan portfolio at September 30, 2013. As real estate values recover and market conditions improve for residential construction lending, we expect to increase our construction and land development lending. See "-Asset Quality".

The investment and mortgage-backed securities portfolio has decreased by \$3.6 million to \$125.5 million at September 30, 2013 from \$129.1 million at September 30, 2012. This decrease was primarily due to \$54.5 million received from the sales and principal payments which offset the \$53.4 million purchased during fiscal year ended September 30, 2013. At September 30, 2013, the investment and mortgage-backed securities had an aggregate net unrealized loss of \$5.1 million which was primarily due to recent increases in the yield on longer term U.S. treasury bond yields which resulted in a reduction with fair values of our available-for-sale securities.

At September 30, 2013, the Company's non-performing assets totaled \$7.0 million or 1.2% of total assets as compared to \$16.0 million or 3.3% of total assets at September 30, 2012. Non-performing assets at September 30, 2013 included \$6.6 million in non-performing loans of which there were 21 one-to four-family residential loans totaling \$4.3 million and seven commercial real estate loans extended to the same borrower totaling \$2.4 million. Non-performing assets also included two one-to-four family residential real estate owned properties totaling \$406,000. Included in the non-performing loans were \$2.1 million of troubled debt restructurings consisting of one residential real estate loan in the amount of \$157,000 and the remaining, five commercial real estate loans. The remaining five commercial real estate loans included one loan in the amount of \$1.3 million extended in connection with the sale of all of the loans related to a 133-unit completed condominium project in Philadelphia. See "Lending Activities – Construction and Land Development Lending." The allowance for loan losses totaled \$2.4 million, or 0.8% of total loans and 35.5% of total non-performing loans at September 30, 2013. See "-Asset Quality".

The executive offices are located at 1834 Oregon Avenue, Philadelphia, Pennsylvania and the Company's telephone number is (215) 755-1500.

Market Area and Competition

The primary market area is Philadelphia, in particular South Philadelphia and Center City, as well as Delaware County. We also conduct business in Bucks, Chester and Montgomery Counties which, along with Delaware County, comprise the suburbs of Philadelphia. We also make loans in contiguous counties in southern New Jersey. This area is referred to as the Delaware Valley region.

Philadelphia is the fifth largest metropolitan region in the United States and home to over 63 colleges and universities. Traditionally, the economy of the Philadelphia metropolitan area was driven by the manufacturing and distribution sectors. Currently, the leading employment sectors in the region are (i) educational and health services; (ii) transportation, trade and utilities services; (iii) professional and business services; and (iv) due to the region's numerous historic attractions, leisure and hospitality services. The region's leading employers include Jefferson Health System, the University of Pennsylvania Health System, Merck & Company, Inc. and Comcast Corporation. The Philadelphia metropolitan area has also evolved into one of the major corporate centers in the United States due to its geographic location, access to transportation, significant number of educational facilities to supply technical talent and available land for corporate and industrial development. The Philadelphia metropolitan area is currently home to 13 Fortune 500 companies, including AmerisourceBergen, Comcast, Sunoco, DuPont, Aramark and Lincoln Financial. It is also a major health care area with a number of teaching and research hospitals being operated.

The Philadelphia region is slowly recovering from the effects of the recent economic recession where falling home prices and sharply reduced sales volumes significantly contributed to a recession that officially lasted until June 2009, although the effects continued thereafter. Home prices in the area experienced reflected a modest increase in 2012 and continued to increase in the first three quarters of 2013. The unemployment rate for the Philadelphia metropolitan area was 7.8% in September 30, 2013 compared to a Pennsylvania unemployment rate of 7.7% and a national unemployment rate of 7.2% in September 30, 2013.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Many of the financial service providers operating in the market area are significantly larger, and have greater financial resources, than us. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage

firms and insurance companies.

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Lending Activities

General. At September 30, 2013, the net loan portfolio totaled \$306.5 million or 50.4% of total assets. Historically, the principal lending activity has been the origination of residential real estate loans collateralized by one- to four-family, also known as “single-family” homes secured by properties located in the Company’s market area.

The types of loans that we may originate are subject to federal and state banking laws and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Board of Governors of the Federal Reserve System (“Federal Reserve Board”), legislative tax policies and governmental budgetary matters.

Loan Portfolio Composition. The following table shows the composition of the loan portfolio by type of loan at the dates indicated.

	September 30, 2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Real estate loans:										
One- to four-family residential (1)	\$270,791	87.81 %	\$222,793	84.64 %	\$196,533	79.53 %	\$197,164	74.96 %	\$201,396	75.98 %
Multi-family residential	5,716	1.85 %	5,051	1.92 %	5,723	2.32 %	4,006	1.52 %	4,178	1.58 %
Commercial real estate	19,506	6.33 %	19,333	7.35 %	21,175	8.57 %	19,710	7.49 %	19,907	7.51 %
Construction and land development	11,356	3.68 %	14,873	5.65 %	22,226	9.00 %	40,650	15.46 %	36,764	