

GREENE COUNTY BANCORP INC

Form 10-K

September 28, 2011

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2011

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transaction period from _____ to _____

Commission File Number: 0-25165

GREENE COUNTY BANCORP, INC.
(Name of registrant as specified in its Charter)

United States 14-1809721
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S.)

Employer Identification No.)

302 Main Street, Catskill, New
York 12414
(Address of Principal Executive Office) (Zip

Code)

(518) 943-2600
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.10 per share	The Nasdaq Stock
Market LLC	

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange 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 past twelve 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark 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 amendments to this Form 10-K. YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES NO

As of December 31, 2010, there were issued and outstanding 4,135,495 shares of the Registrant's common stock of which 1,294,143 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of \$19.47 on December 31, 2010, the aggregate value of stock held by non-affiliates was \$25,197,000. As of September 28, 2011, there were issued and outstanding 4,145,282 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Shareholders for the fiscal year ended June 30, 2011 (Part II).
2. Proxy Statement for the 2011 Annual Meeting of Shareholders (Part II and III)

GREENE COUNTY BANCORP, INC. AND SUBSIDIARIES
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PART I

ITEM 1. Business

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements. Greene County Bancorp, Inc. desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all such forward-looking statements. These forward-looking statements, which are included in this annual report, describe future plans or strategies and include Greene County Bancorp, Inc.’s expectations of future financial results. The words “believe,” “expect,” “anticipate,” “project,” and similar expressions identify forward-looking statements. Greene County Bancorp, Inc.’s ability to predict results or the effect of future plans or strategies or qualitative or quantitative changes based on market risk exposure is inherently uncertain. Factors that could affect actual results include but are not limited to:

- (a) changes in general market interest rates,
- (b) general economic conditions,
- (c) legislative and regulatory changes,
- (d) monetary and fiscal policies of the U.S. Treasury and the Federal Reserve,
- (e) changes in the quality or composition of Greene County Bancorp, Inc.’s loan and investment portfolios,
- (f) deposit flows,
- (g) competition, and
- (h) demand for financial services in Greene County Bancorp, Inc.’s market area.

These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements, since results in future periods may differ materially from those currently expected because of various risks and uncertainties.

General

Greene County Bancorp, Inc. operates as the federally chartered holding company of The Bank of Greene County, a federally chartered savings bank. A majority of Greene County Bancorp, Inc.’s issued and outstanding common stock (55.6%) is held by Greene County Bancorp, MHC, a federally chartered mutual holding company. The remaining shares of Greene County Bancorp, Inc. are owned by public stockholders and The Bank of Greene County’s Employee Stock Ownership Plan. In June 2004, The Bank of Greene County opened a new limited-purpose subsidiary, Greene County Commercial Bank. The purpose of Greene County Commercial Bank is to serve local municipalities’ banking needs. In June 2011, The Bank of Greene County formed a new subsidiary, Greene Property Holdings, Ltd., which will beneficially own mortgages originated through The Bank of Greene County, and will elect under the Internal Revenue Code to be taxed as a real estate investment trust once all regulatory approvals have been received.

Greene County Bancorp, Inc.

Greene County Bancorp, Inc. was organized in December of 1998 at the direction of the Board of Trustees of The Bank of Greene County (formerly Greene County Savings Bank) for the purpose of acting as the holding company of The Bank of Greene County. In 2001, Greene County Bancorp, Inc. converted its charter from a Delaware corporation regulated by the New York Superintendent of Banks and the Board of Governors of the Federal Reserve System to a federal corporation regulated by the Office of Thrift Supervision. Effective in July 2011, the regulation of federally chartered entities was transferred to the Federal Reserve Board under the Dobb-Frank Act. At June 30, 2011, Greene County Bancorp, Inc.’s assets consisted primarily of its investment in The Bank of Greene County and cash totaling \$2.3 million. At June 30, 2011, 1,841,196 shares of Greene County Bancorp, Inc.’s common stock, par value \$0.10 per share, were held by the public, including executive officers and directors, 159,842 shares were held as

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Treasury stock and 2,304,632 shares were held by Greene County Bancorp, MHC, Greene County Bancorp, Inc.'s mutual holding company. Greene County Bancorp, Inc.'s principal business is overseeing and directing the business of The Bank of Greene County and monitoring its cash position.

At June 30, 2011, Greene County Bancorp, Inc. had consolidated total assets of \$547.5 million, consolidated total deposits of \$469.9 million, consolidated borrowings from the Federal Home Loan Bank of New York (FHLB) of \$26.3 million and consolidated total equity of \$48.1 million.

Greene County Bancorp, Inc.'s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

The Bank of Greene County

The Bank of Greene County was organized in 1889 as The Building and Loan Association of Catskill, a New York-chartered savings and loan association. In 1974, The Bank of Greene County converted to a New York mutual savings bank under the name Greene County Savings Bank. In conjunction with the reorganization and the offering completed in December 1998, which resulted in the organization of Greene County Bancorp, Inc., Greene County Savings Bank changed its name to The Bank of Greene County. In November 2006, The Bank of Greene County converted its charter to a federal savings bank charter. The Bank of Greene County's deposits are insured by the Deposit Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law.

The Bank of Greene County's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in one to four-family residential mortgage loans, nonresidential mortgage loans, consumer loans, home equity loans and commercial business loans. In addition, The Bank of Greene County invests a significant portion of its assets in investment securities, mortgage-backed and asset-backed securities. The Bank of Greene County's revenues are derived principally from the interest on its residential and nonresidential mortgages, and to a lesser extent, from interest on consumer and commercial loans and securities, as well as from servicing fees and service charges and other fees collected on its deposit accounts. Through its affiliation with Fenimore Asset Management and Essex Corporation, The Bank of Greene County offers investment alternatives for customers, which also contributes to the Bank's revenues. The Bank of Greene County's primary sources of funds are deposits, borrowings from the FHLB, and principal and interest payments on loans and securities. At June 30, 2011, The Bank of Greene County had total assets of \$433.6 million, total deposits of \$358.4 million, borrowings from the Federal Home Loan Bank of New York (FHLB) of \$26.3 million and total equity of \$45.8 million.

The Bank of Greene County's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Commercial Bank

Greene County Commercial Bank was formed in January 2004 as a New York State-chartered limited purpose commercial bank. Greene County Commercial Bank has the power to receive deposits only to the extent of accepting for deposit the funds of the United States and the State of New York and their respective agents, authorities and instrumentalities, and local governments as defined in Section 10(a)(1) of the New York General Municipal Law. At June 30, 2011, Greene County Commercial Bank had \$161.6 million in assets, \$113.3 million in total deposits, \$33.0 million in borrowings from The Bank of Greene County, and \$14.8 million in total equity.

Greene County Commercial Bank's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene Property Holdings, Ltd.

Greene Property Holdings, Ltd. was formed in June 2011 as a New York corporation that will elect under the Internal Revenue Code to be taxed as a real estate investment trust. The Bank of Greene County, once all regulatory approvals are received, will transfer beneficial ownership of certain mortgages and notes to Greene Property Holdings, Ltd. in exchange for 100% of the common stock of Greene Property Holdings, Ltd. The Bank of Greene County will continue to service these mortgage customers pursuant to a management and servicing agreement with Greene Property Holdings, Ltd.

Greene Property Holdings, Ltd's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Bancorp, MHC

Greene County Bancorp, MHC was formed in December 1998 as part of The Bank of Greene County's mutual holding company reorganization. In 2001, Greene County Bancorp, MHC converted from a state to a federal charter. The Federal Reserve Board regulates Greene County Bancorp, MHC. Greene County Bancorp, MHC owns 56.0% of the issued and outstanding common stock of Greene County Bancorp, Inc. Greene County Bancorp, MHC does not engage in any business activity other than to hold a majority of Greene County Bancorp, Inc.'s common stock and to invest any liquid assets of Greene County Bancorp, MHC, which amounted to \$189,000, in cash and cash equivalents at June 30, 2011.

Greene County Bancorp, MHC's administrative office is located at 302 Main Street, Catskill, New York 12414-1317, and its telephone number at that address is (518) 943-2600.

Market Area

The Bank of Greene County has been, and intends to continue to be, a community-oriented bank offering a variety of financial services to meet the needs of the communities it serves. The Bank of Greene County currently operates twelve full-service banking offices in Greene County, Columbia County and southern Albany County, New York. The Bank of Greene County's primary market area is currently concentrated around the areas within Greene County, Columbia County and southern Albany County where its full-service banking offices are located, namely the towns of Catskill, Cairo, Chatham, Coxsackie, Germantown, Greenport, Greenville, Hudson, Ravena-Coeymans, Tannersville and Westerlo.

As of the 2010 census estimates, the Greene County population was 49,000 and Columbia County was 63,000. Greene County is primarily rural and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. The county has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County government and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers within the Company's market area include the Hunter Mountain and Ski Windham resort areas, LaFarge, Columbia Memorial Hospital, Taconic Farms, Ginsberg's Foods, the Catskill, Cairo-Durham, Chatham, Greenville, Coxsackie-Athens, Hudson City, and Ravena-Coeyman Central School Districts.

Competition

The Bank of Greene County faces significant competition both in making loans and in attracting deposits. The Bank of Greene County's subsidiary Greene County Commercial Bank faces similar competition in attracting municipal deposits. The Bank of Greene County's market area has a high density of financial institutions, many of which are branches of significantly larger institutions that have greater financial resources than The Bank of Greene County, and

all of which are competitors of The Bank of Greene County to varying degrees. The Bank of Greene County's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. The Bank of Greene County faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition has also increased as a result of the lifting of restrictions on the interstate operations of financial institutions.

Competition has increased as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eased restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, because this legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in The Bank of Greene County's primary market area that offer a wider variety of financial services than The Bank of Greene County currently offers. In recent years, the internet has also become a significant competitive factor for The Bank of Greene County and the overall financial services industry. Competition for deposits, for the origination of loans and the provision of other financial services may limit The Bank of Greene County's growth and adversely impact its profitability in the future.

Lending Activities

General. The principal lending activity of The Bank of Greene County is the origination, for retention in its portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by residential and nonresidential real estate located within its primary market area. The Bank of Greene County also originates home equity loans, consumer loans and commercial business loans, and has increased its focus on all aspects of commercial lending. The Bank of Greene County also offers a variety of line of credit products.

The Bank of Greene County continues to utilize conservative underwriting standards in originating real estate loans. As such, it does not engage in sub-prime lending or other exotic loan products. At the time of origination, appraisals are obtained to ensure adequate loan-to-value of the underlying collateral. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest or an event that would indicate a significant decline in the collateral value. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure collateral adequacy.

In an effort to manage the interest rate risk associated with its predominantly fixed-rate loan portfolio, The Bank of Greene County maintains high levels of liquidity. Cash, cash equivalents and securities available for sale comprised 18.3% of total consolidated bank assets at June 30, 2011, all of which can be used for liquidity needs. The Bank of Greene County seeks to attract checking and other transaction accounts that generally have lower interest rate costs and tend to be less interest rate sensitive when interest rates rise to fund fixed-rate residential mortgages. Additionally, The Bank of Greene County originates shorter-term consumer loans and other adjustable-rate loans including many commercial lending products in order to help mitigate interest rate risk.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of The Bank of Greene County's loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and costs, unearned discounts and allowances for losses) as of the dates indicated.

	At June 30,					
	2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Real estate loans:						
Residential	\$181,612	59.42%	\$182,525	61.01%	\$172,038	63.48%
Nonresidential	63,860	20.90	54,586	18.25	47,029	17.35
Construction and land	5,745	1.88	9,357	3.12	7,806	2.88
Multi-family	6,048	1.98	6,035	2.01	1,140	0.43
Total real estate loans	257,265	84.18	252,503	84.39	228,013	84.14
Consumer loans						
Consumer			4,285	1.43	4,174	1.54
Installment(1)	4,008	1.31				
Home equity	25,559	8.37	26,602	8.89	26,183	9.66
Total consumer loans	29,567	9.68	30,887	10.32	30,357	11.20
Commercial loans	18,788	6.14	15,810	5.29	12,631	4.66
Total consumer loans and commercial loans	48,355	15.82	46,697	15.61	42,988	15.86
Total gross loans	305,620	100.0%	299,200	100.0%	271,001	100.0%
Less:						
Deferred fees and costs	495		406		321	
Allowance for loan losses	(5,069)		(4,024)		(3,420)	
Total loans receivable, net	\$301,046		\$295,582		\$267,902	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Loan Portfolio Composition continued....

At June 30,				
	2008		2007	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Real estate loans:				
Residential	\$158,193	65.87%	\$140,901	67.51%
Nonresidential	30,365	12.64	24,357	11.67
Construction and land	12,295	5.12	9,619	4.61
Multi-family	1,094	0.46	1,078	0.52
Total real estate loans	201,947	84.09	175,955	84.31
Consumer loans				
Consumer installment (1)	4,573	1.91	4,640	2.22
Home equity	23,957	9.97	19,719	9.45
Total consumer loans	28,530	11.88	24,359	11.67
Commercial loans	9,669	4.03	8,391	4.02
Total consumer loans and Commercial loans	38,199	15.91	32,750	15.69
Total gross loans	240,146	100.0%	208,705	100.00%
Less:				
Deferred fees and costs	182		61	
Allowance for loan losses	(1,888)		(1,486)	
Total loans receivable, net	\$238,440		\$207,280	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Loan Portfolio Composition continued....

	At June 30,					
	2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Fixed-rate loans						
Real estate loans						
Residential	\$172,017	56.28%	\$174,546	58.34%	\$165,309	61.00%
Nonresidential	26,795	8.77	19,885	6.65	19,357	7.14
Construction and land	4,418	1.45	8,275	2.76	6,296	2.32
Multi-family	2,320	0.76	2,040	0.68	936	0.35
Total fixed-rate real estate loans	205,550	67.26	204,746	68.43	191,898	70.81
Consumer loans						
Consumer installment (1)	4,008	1.31	4,285	1.43	4,174	1.54
Home equity	10,314	3.38	12,386	4.14	13,157	4.85
Commercial loans	7,895	2.58	6,023	2.02	5,191	1.91
Total fixed-rate loans	227,767	74.53	227,440	76.02	214,420	79.11
Adjustable-rate loans						
Real estate loans:						
Residential	9,595	3.14	7,979	2.67	6,729	2.48
Nonresidential	37,065	12.13	34,701	11.60	27,672	10.21
Construction and land	1,327	0.43	1,082	0.36	1,510	0.56
Multi-family	3,728	1.22	3,995	1.33	204	0.08
Total adjustable-rate real estate loans	51,715	16.92	47,757	15.96	36,115	13.33
Consumer loans						
Home equity	15,245	4.99	14,216	4.75	13,026	4.81
Commercial loans	10,893	3.56	9,787	3.27	7,440	2.75
Total adjustable-rate loans	77,853	25.47	71,760	23.98	56,581	20.89
Total gross loans	305,620	100.00%	299,200	100.00%	271,001	100.00%
Less:						
Deferred fees and costs	495		406		321	
Allowance for loan losses	(5,069)		(4,024)		(3,420)	
Total loans receivable, net	\$301,046		\$295,582		\$267,902	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Loan Portfolio Composition continued....

	At June 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Fixed-rate loans				
Real estate loans				
Residential	\$152,722	63.59%	\$134,474	64.43%
Nonresidential	17,030	7.09	16,181	7.75
Construction and land	11,335	4.72	8,735	4.19
Multi-family	1,094	0.46	1,078	0.52
Total fixed-rate real estate loans	182,181	75.86	160,468	76.89
Consumer loans				
Consumer installment (1)	4,573	1.91	4,640	2.22
Home equity	14,745	6.14	10,829	5.19
Commercial loans	5,185	2.16	5,113	2.45
Total fixed-rate loans	206,684	86.07	181,050	86.75
Adjustable-rate loans				
Real estate loans:				
Residential	5,471	2.28	6,427	3.08
Nonresidential	13,335	5.55	8,176	3.92
Construction and land	960	0.40	884	0.42
Multi-family	---	---	---	---
Total adjustable-rate real estate loans	19,766	8.23	15,487	7.42
Consumer loans				
Home Equity	9,212	3.83	8,890	4.26
Commercial loans	4,484	1.87	3,278	1.57
Total adjustable-rate loans	33,462	13.93	27,655	13.25
Total gross loans	240,146	100.00%	208,705	100.00%
Less:				
Deferred fees and costs	182		61	
Allowance for loan losses	(1,888)		(1,486)	
Total loans receivable, net	\$238,440		\$207,280	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Residential and Construction and Land Loans. The Bank of Greene County's primary lending activity is the origination of residential mortgage loans collateralized by property located in The Bank of Greene County's primary market area. Residential mortgage loans refer to loans collateralized by residences; by contrast, multi-family loans

refer to loans collateralized by multi-family units, such as apartment buildings. Generally, residential mortgage loans are made in amounts up to 80.0% of the appraised value of the property. However, The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. For the year ended June 30, 2011, less than one percent of the residential mortgage loans originated by The Bank of Greene County were originated with loan-to-value ratios over 80.0%. For the year ended June 30, 2011, The Bank of Greene County originated approximately 85.0% to 90.0% of residential mortgage loans with loan-to-value ratios of 80.0% or less. Generally, residential mortgage loans are originated for terms of up to 30 years, in recent years, however The Bank of Greene County has been successful in marketing and originating such loans with 15-year terms. Residential fixed-rate loans are offered with monthly payment features. The Bank of Greene County generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, hazard and flood insurance, as well as title insurance on most properties collateralizing real estate loans made by The Bank of Greene County.

At June 30, 2011, virtually all of The Bank of Greene County's residential mortgage loans were conforming loans and, accordingly, were eligible for sale in the secondary mortgage market. However, generally the residential mortgage loans originated by The Bank of Greene County are retained in its portfolio and are not sold into the secondary mortgage market. To the extent fixed rate residential mortgage loans are retained by The Bank of Greene County, it is exposed to increases in market interest rates, since the yields earned on such fixed-rate assets would remain fixed, while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County currently offers residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, The Bank of Greene County's interest rate gap position, and loan products offered by The Bank of Greene County's competitors. In the current low interest rate environment most of our borrowers prefer fixed-rate loans to adjustable-rate loans. Single-family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that The Bank of Greene County's single-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors.

The Bank of Greene County's adjustable-rate mortgage ("ARM") loans currently provide for maximum rate adjustments of 150 basis points per year and 600 basis points over the term of the loan. The Bank of Greene County offers ARM loans with initial interest rates that are below market, referred to as "teaser rates." However, in underwriting such loans, borrowers are qualified at the full index rate. Generally, The Bank of Greene County's ARM loans adjust annually. After origination, the interest rate on such ARM loans is reset based upon a contractual spread or margin above the average yield on one-year United States Treasury securities, adjusted to a constant maturity, as published weekly by the Federal Reserve Board.

ARM loans decrease the risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At June 30, 2011, \$9.6 million, or 3.14%, of The Bank of Greene County's loan portfolio consisted of residential loans with adjustable interest rates, compared to \$172.0 million, or 56.28%, of the loan portfolio comprised of residential loans with fixed interest rates. The Bank of Greene County's willingness and capacity to originate and hold in portfolio fixed rate residential mortgage loans has enabled it to expand customer relationships in the current relatively low long-term interest rate environment where borrowers have generally preferred fixed rate mortgage loans. However, as noted above, to the extent The Bank of Greene County retains fixed rate residential mortgage loans in its portfolio, it is exposed to

increases in market interest rates, since the yields earned on such fixed rate assets would remain fixed while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County's residential mortgage loan originations are generally obtained from The Bank of Greene County's loan representatives operating in its branch offices through their contacts with existing or past loan customers, depositors of The Bank of Greene County, attorneys and accountants who refer loan applications from the general public, and local realtors. The Bank of Greene County has loan originators who call upon customers during non-banking hours and at locations convenient to the customer.

All residential mortgage loans originated by The Bank of Greene County include "due-on-sale" clauses, which give The Bank of Greene County the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

At June 30, 2011, \$181.6 million, or 59.42%, of The Bank of Greene County's loan portfolio consisted of residential mortgage loans. \$3.1 million of such loans (consisting of 26 loans) were included in nonperforming loans as of that date. Allowance for loan losses allocated to residential mortgage loans totaled \$1.8 million at June 30, 2011.

The Bank of Greene County originates construction-to-permanent loans to homeowners for the purpose of construction of primary and secondary residences. The Bank of Greene County issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum term of twelve months and the interest charged is the rate as stated in the commitment, with loan-to-value ratios of up to 80.0% (or up to 95.0% with private mortgage insurance), of the completed project. The Bank of Greene County also offers loans collateralized by undeveloped land. The acreage associated with such loans is limited. These land loans generally are intended for future sites of primary or secondary residences. The terms of vacant land loans generally have a ten-year amortization and a five-year balloon payment.

At June 30, 2011, \$5.7 million or 1.88% of the Bank of Greene County's loan portfolio consisted of construction and land lending. Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. The Bank of Greene County completes inspections during the construction phase prior to any disbursements. The Bank of Greene County limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan. Land loans included in nonperforming loans totaled \$238,000 (consisting of two loans) at June 30, 2011. There were no construction loans in nonperforming loans at June 30, 2011. Allowance for loan losses allocated to construction and land loans totaled \$116,000 at June 30, 2011.

Nonresidential mortgages and Multifamily Loans. At June 30, 2011, \$63.9 million, or 20.90%, of the total loan portfolio consisted of nonresidential mortgages. Growth in the nonresidential mortgage portfolio was the result of an increase in opportunities to lend to local businesses due to less availability of funds within other larger financial institutions within our market area. The Bank has increased its focus within this lending area and has developed a strong team of lenders and business development staff. Office buildings, mixed-use properties and other commercial properties collateralize nonresidential mortgages. The Bank of Greene County originates fixed- and adjustable-rate nonresidential mortgage loans with maximum terms of up to 25 years. The maximum loan-to-value ratio at closing of nonresidential mortgage loans is generally 70.0%. At June 30, 2011, the largest nonresidential mortgage loan had a principal balance of \$2.9 million and was performing in accordance with its terms. Nonresidential mortgage loans included in nonperforming loans totaled \$2.2 million (consisting of 12 loans) at June 30, 2011. Allowance for loan losses allocated to nonresidential mortgage loans totaled \$1.9 million at June 30, 2011.

In underwriting nonresidential mortgage loans, The Bank of Greene County reviews the expected net operating income generated by the real estate to ensure that it is generally at least 110% of the amount of the monthly debt

service; the age and condition of the collateral; the financial resources and income level of the borrower and any guarantors; and the borrower's business experience. The Bank of Greene County's policy is to require personal guarantees from all nonresidential mortgage borrowers.

The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for nonresidential mortgage loans. It is also The Bank of Greene County's policy to require title and hazard insurance on all mortgage loans. In addition, The Bank of Greene County may require borrowers to make payments to a mortgage escrow account for the payment of property taxes. Any exceptions to The Bank of Greene County's loan policies must be made in accordance with the limitations set out in each policy. Typically, the exception authority ranges from the Chief Lending Officer to the Board of Directors, depending on the size and type of loan involved.

Loans collateralized by nonresidential mortgages generally are larger than residential loans and involve a greater degree of risk. Nonresidential mortgage loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of nonresidential mortgage loans makes them more difficult for management to monitor and evaluate.

The Bank of Greene County originates a limited number of multi-family loans, which totaled \$6.0 million, or 1.98%, of The Bank of Greene County's total loans at June 30, 2011. Multi-family loans are generally collateralized by apartment buildings located in The Bank of Greene County's primary market area. There were three nonperforming multi-family loans totaling \$577,000 at June 30, 2011. The Bank of Greene County's underwriting practices and the risks associated with multi-family loans do not differ substantially from that of nonresidential mortgage loans. Allowance for loan losses allocated to multi-family loans totaled \$410,000 at June 30, 2011.

Consumer Loans. The Bank of Greene County's consumer loans consist of direct loans on new and used automobiles, personal loans (either secured or unsecured), home equity loans, and other consumer installment loans (consisting of passbook loans, unsecured home improvement loans, recreational vehicle loans, and deposit account overdrafts). Consumer loans (other than home equity loans and deposit account overdrafts) are originated at fixed rates with terms to maturity of one to five years. At June 30, 2011, consumer loans (other than home equity loans) totaled \$4.0 million, or 1.31%, of the total loan portfolio. Consumer loans (other than home equity loans) totaling \$41,000 were included in nonperforming loans as of that date. Allowance for loan losses allocated to consumer loans totaled \$203,000 at June 30, 2011.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans. In addition, consumer loans expand the products and services offered by The Bank of Greene County to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Bank of Greene County's underwriting procedures for consumer loans includes an assessment of the applicant's credit history and an assessment of the applicant's ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount. The Bank of Greene County underwrites its consumer loans internally, which The Bank of Greene County believes limits its exposure to credit risks associated with loans underwritten or purchased from brokers and other external sources. At this time, The Bank of Greene County does

not purchase loans from any external sources.

The Bank of Greene County offers fixed- and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 20 years and under the same criteria that The Bank of Greene County uses to underwrite residential fixed rate loans. Home equity loans may be underwritten with terms not to exceed 20 years and with a loan to value ratio of 80% when combined with the principal balance of the existing mortgage loan. The Bank of Greene County appraises the property collateralizing the loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. At June 30, 2011, the outstanding balance of home equity loans totaled \$25.6 million, or 8.37%, of The Bank of Greene County's total loan portfolio. There were two home equity loans included in nonperforming loans totaling \$49,000 at June 30, 2011. Allowance for loan losses allocated to home equity loans totaled \$186,000 at June 30, 2011.

Commercial Loans. The Bank of Greene County also originates commercial loans with terms of up to 10 years at fixed and adjustable rates. The Bank of Greene County attributes growth in this portfolio to its ability to offer borrowers senior management attention as well as timely and local decision-making on commercial loan applications. The decision to grant a commercial loan depends primarily on the creditworthiness and cash flow of the borrower (and any guarantors) and secondarily on the value of and ability to liquidate the collateral, which may consist of receivables, inventory and equipment. A mortgage may also be taken for additional collateral purposes, but is considered secondary to the other collateral for commercial business loans. The Bank of Greene County generally requires annual financial statements, tax returns and personal guarantees from the commercial borrowers. The Bank of Greene County also generally requires an appraisal of any real estate that collateralizes the loan. At June 30, 2011, The Bank of Greene County had \$18.8 million of commercial loans representing 6.14% of the total loan portfolio. The largest commercial loan had a balance of \$800,500. At June 30, 2011, The Bank of Greene County's commercial loan portfolio included loans collateralized by inventory, fire trucks, other equipment, or real estate. There were five commercial loan included in nonperforming loans totaling \$144,000 at June 30, 2011. Allowance for loan losses allocated to commercial loans totaled \$528,000 at June 30, 2011.

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and nonresidential mortgage lending. Real estate lending is generally considered to be collateral based, with loan amounts based on fixed-rate loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Loan Maturity Schedule. The following table sets forth certain information as of June 30, 2011 regarding the amount of loans maturing or re-pricing in The Bank of Greene County's portfolio. Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due. Lines of credit with no specified maturity date are included in the category "within one year."

The following table illustrates the future maturities of such loans at June 30, 2011.

	1 Year	3 Years	5 Years		
	Within	Through	Through	Through	Beyond
	1 Year	3 Years	5 Years	10	10 Years Total
				Years	

(Dollars in thousands)

Real estate loans:						
Residential	\$3,905	\$3,283	\$4,140	\$24,996	\$145,288	\$181,612
Nonresidential	14,933	8,810	17,837	9,930	12,350	63,860
Construction and land	4,265	738	42	630	70	5,745
Multi-family	577	1,455	1,132	1,093	1,791	6,048
Total real estate loans	23,680	14,286	23,151	36,649	159,499	257,265
Consumer Installment						
loans	16,116	1,902	3,502	4,503	3,544	29,567
Commercial loans	11,064	1,030	3,272	2,370	1,052	18,788
Total loan portfolio	\$50,860	\$17,218	\$29,925	\$43,522	\$164,095	\$305,620

The total amount of the above loans that mature or are due after June 30, 2012 that have fixed interest rates is \$215.5 million while the total amount of loans that mature or are due after such date that have adjustable interest rates is \$39.3 million. The interest rate risk implications of The Bank of Greene County's substantial preponderance of fixed-rate loans is discussed in detail on pages 12-14 of Greene County Bancorp, Inc.'s 2011 Annual Report to Shareholders, which discussion is incorporated herein by reference.

Loan Approval Procedures and Authority. The Board of Directors establishes the lending policies and loan approval limits of The Bank of Greene County. Loan officers generally have the authority to originate mortgage loans, consumer loans and commercial business loans up to amounts established for each lending officer. The Executive Committee or the full Board of Directors must approve all residential loans over \$1.0 million.

The Board annually approves independent appraisers used by The Bank of Greene County. For larger loans, The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for all non-residential mortgage loans. It is The Bank of Greene County's policy to require hazard insurance on all mortgage loans.

Loan Origination Fees and Other Income. In addition to interest earned on loans, The Bank of Greene County receives loan origination fees. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money.

In addition to loan origination fees, The Bank of Greene County also receives other income that consists primarily of deposit account service charges, ATM fees, debit card fees and loan payment late charges. The Bank of Greene County also installs, maintains and services merchant bankcard equipment for local retailers and is paid a percentage of the transactions processed using such equipment.

Loans to One Borrower. Savings banks are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is collateralized by readily marketable collateral (generally, financial instruments and bullion, but not real estate). The Bank of Greene County's policy provides that loans to one borrower (or related borrowers) should not exceed 10% of The Bank of Greene County's capital and reserves.

At June 30, 2011, the largest aggregate amount loaned by The Bank of Greene County to one borrower consisted of a commercial mortgage with an outstanding balance of \$2.9 million. This loan was performing in accordance with its terms at June 30, 2011.

Delinquencies and Classified Assets

Collection Procedures. A computer generated late notice is sent and a 2% late charge is assessed when a payment is 15 days late for all loans except consumer loans. A second notice will be incorporated in the next month's billing

notice, approximately 21 days after the due date of the first late payment. Accounts thirty days or more past due will be reviewed by the collection manager and receive individual attention as required, including collection letters and telephone calls. The collection manager, in order to avoid further deterioration, will closely monitor accounts that have a history of consistent late or delinquent payments. Accounts two or more payments past due are reported to the Board of Directors for consideration of foreclosure action. With respect to consumer loans, a late notice is sent and a late charge is assessed 10 days (or, in the case of home equity loans, 15 days) after payment is due. A second notice is sent 15 days (in the case of home equity loans, 25 days) thereafter. The collection manager reviews loans 30 days or more past due individually, following up with collection letters and telephone calls. Accounts three or more payments past due are reported to the Board of Directors and are subject to legal action and repossession of collateral.

Loans Past Due and Non-performing Assets. Loans are reviewed on a regular basis to assess collectability of all principal and interest payments due. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the principal or interest will not be collected in accordance with contractual terms of the note. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. For further discussion regarding impaired loans see Management's Discussion and Analysis on page 18 and Note 4, Loans of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which discussion is incorporated herein by reference.

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan does not have to be 90 days delinquent in order to be classified as non-performing. Interest on nonaccrual loans is recognized on a cash basis until such time as the borrower has brought the loan to performing status. A loan is not removed from nonaccrual status until the loan is current for at least six months and evidence supports the borrower's ability to maintain a current status. Foreclosed real estate is included in non-performing assets. At June 30, 2011, The Bank of Greene County had non-performing loans of \$6.3 million and a ratio of non-performing loans to total loans of 2.09%.

Real estate acquired as a result of foreclosure, by deed in lieu of foreclosure, or in-substance foreclosure is classified as foreclosed real estate ("FRE") until such time as it is sold. When real estate is classified as foreclosed real estate, it is recorded at its fair value, less estimated costs of disposal establishing a new cost basis. If the value of the property is less than the loan, less any related specific loan loss provisions, the difference is charged against the allowance for loan losses. Any subsequent write-down of FRE is charged against earnings. During the year ended June 30, 2011, one residential mortgage loan was transferred at its fair value of \$363,000, and one nonresidential mortgage loan was transferred at its fair value of \$80,000. At June 30, 2011, The Bank of Greene County had 2 properties held in foreclosed real estate with a fair value totaling \$443,000 and its ratio of non-performing assets to total assets was 1.23%.

Nonaccrual Loans and Nonperforming Assets. The following table sets forth information regarding nonaccrual loans and other non-performing assets at the dates indicated. The Bank of Greene County had no accruing loans delinquent more than 90 days for the dates indicated.

(dollars in thousands)	At June 30,				
	2011	2010	2009	2008	2007
Nonaccrual loans:					
Real estate loans					
Residential	\$3,074	\$2,001	\$1,573	\$1,123	\$408
Nonresidential	2,171	1,095	749	91	111
Construction and land	238	13	13	38	43
Multifamily	577	594	--	26	---

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Home equity	49	197	227	493	110
Commercial	144	3	132	142	---
Consumer installment	41	18	19	26	10
Total nonaccrual loans	6,294	3,921	2,713	1,939	682

Foreclosed real estate:					
Residential	363	---	100	---	---
Nonresidential	80	---	115	---	---
Total foreclosed real estate	443	---	215	---	---

Total non-performing assets	\$6,737	\$3,921	\$2,928	\$1,939	\$682
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Total as a percentage of total assets	1.23%	0.79%	0.64%	0.51%	0.21%
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At June 30, 2011, all loans which are “troubled debt restructurings” as defined within FASB ASC topic “Receivables”, and further clarified in ASU 2011-02 “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” were included in non-accrual loans. These loans are not removed from non-accrual status until they have performed under the restructured terms of the loan for at least six months.

The table below details additional information related to nonaccrual loans as of June 30:

(In thousands)	2011	2010	2009
Nonaccrual Loans	\$6,294	\$3,921	\$2,713
Interest income that would have been recorded if loans had been performing in accordance with original terms	529	354	231
Interest income that was recorded on nonaccrual loans during the fiscal year ended	226	146	120

There were no loans ninety days or more past due and still accruing at June 30, 2011, 2010 or 2009.

Potential Problem Loans. Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Company's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, The Bank of Greene County provides for the classification of loans and other assets considered being of lesser quality. Such ratings coincide with the "Substandard", "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." For further discussion regarding how management determines when a loan should be classified see Note 4, Loans of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which discussion is incorporated herein by reference. At June 30, 2011, The Bank of Greene County had loans that amounted to \$7.3 million classified as substandard, loans that amounted to \$1.8 million designated as special mention. No loans were classified as either doubtful or loss at June 30, 2011. Nonaccrual loans totaling \$3.3 million are included in loans classified substandard. Loans designated as special mention are performing; however, they have been classified because of deterioration in the financial status of the borrower or in the value of the underlying collateral.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the losses inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County charges loans off against the allowance for credit losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. For loans secured by real estate, a charge-off is recorded when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss can be reasonably estimated. At June 30, 2011, the total allowance was \$5.1 million, which amounted to 1.66% of total loans and 80.54% of nonperforming loans. Management will continue to monitor and modify the level of the allowance for loan losses.

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions.

	June 30, 2011		June 30, 2010		June 30, 2009	
	Percent of loans in each category	Amount of loan loss to total allowance	Percent of loans in each category	Amount of loan loss to total allowance	Percent of loans in each category	Amount of Loan loss to total allowance

(Dollars in
thousands)

Real estate
mortgages:

Residential	\$1,767	59.4%	\$1,427	61.0%	\$1,439	63.5%
Nonresidential	1,859	20.9	1,517	18.3	1,226	17.3
Construction and land	116	1.9	97	3.1	75	2.9
Multi-family	410	2.0	223	2.0	15	0.4
Home equity	186	8.4	205	8.9	221	9.7
Consumer installment	203	1.3	120	1.4	133	1.5
Commercial loans	528	6.1	435	5.3	311	4.7
Totals	\$5,069	100.00%	\$4,024	100.00%	\$3,420	100.00%

	June 30, 2008		June 30, 2007	
	Percent of loans in each category	Amount of loan loss to total allowance	Percent of loans in each category	Amount of loan loss to total allowance

Residential	\$865	65.9%	\$499	67.5%
Nonresidential	492	12.6	499	11.7
Construction and land	64	5.1	64	4.6
Multi-family	3	0.4	4	0.5
Home equity loans	154	10.0	127	9.4
Consumer installment	102	2.0	73	2.3

(Dollars in
thousands)

Real estate
mortgages:

Commercial loans	208	4.0	220	4.0
Totals	\$1,888	100.00%	\$1,486	100.0%

Securities Investment Activities

Given The Bank of Greene County's substantial portfolio of fixed-rate residential mortgage loans, The Bank of Greene County, and its subsidiary Greene County Commercial Bank, maintain high balances of liquid investments for the purpose of mitigating interest rate risk. The Board of Directors establishes the securities investment policy. This policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and desired risk parameters. In pursuing these objectives, management considers the ability of an investment to provide earnings consistent with factors of quality, maturity, marketability and risk diversification.

Greene County Bancorp, Inc.'s current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations. As of June 30, 2011, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were held in the securities portfolio. Company's current securities investment strategy utilizes a risk management approach of diversified investing among three categories: short-, intermediate- and long-term. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk. The Company will only invest in securities rated "A" or higher by at least one nationally recognized rating agency (or securities attaining such rating as a result of guarantees by insurance companies), with the exception of investments in smaller non-rated local bonds. The Company does not engage in any derivative or hedging transactions, such as interest rate swaps or caps.

At June 30, 2011, Greene County Bancorp, Inc. had \$214.3 million in investment securities, or 39.1% of total assets. Greene County Bancorp, Inc. has classified its investments in debt and equity securities as either available-for-sale or held-to-maturity. Available-for-sale securities are reported at fair value, with net unrealized gains and losses reflected in the accumulated other comprehensive income (loss) component of shareholders' equity, net of applicable income taxes. Held-to-maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost. The Company does not have trading securities in its portfolio. During the fiscal year 2009, \$23.8 million of securities available-for-sale were transferred to held-to-maturity and included primarily mortgage-backed securities. These securities were transferred at fair value which reflected a net unrealized loss of \$338,000 at the time of transfer. This unrealized loss is being accreted to other comprehensive income over the remaining average lives of these securities. As of June 30, 2011, held-to-maturity securities totaled \$124.2 million, and available-for-sale securities totaled \$90.1 million.

Book Value of Investment Securities. The following table sets forth certain information regarding the investment securities as of the dates indicated.

	At June 30,					
	2011		2010		2009	
	Book Value	Percent of total	Book Value	Percent of total	Book Value	Percent of total
(Dollars in Thousands)						
Securities, available-for-sale:						
U.S. government sponsored enterprises	\$25,703	12.0%	\$22,176	13.3%	\$20,127	12.4%
State and political subdivisions	7,062	3.3	8,749	5.2	9,586	5.9

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Mortgage-backed securities-residential	28,914	13.5	25,883	15.5	33,420	20.7
Mortgage-backed securities-multi-family	21,096	9.8	25,932	15.5	26,709	16.5
Asset-backed securities	23	0.0	32	0.0	44	0.1
Corporate debt securities	7,206	3.3	6,931	4.1	8,292	5.1
Total debt securities	90,004	41.9	89,703	53.6	98,178	60.7
Equity securities and other	113	0.1	102	0.1	93	0.1
Total securities, available-for-sale	90,117	42.0	89,805	53.7	98,271	60.8
Securities, held-to-maturity:						
U.S. treasury securities	11,062	5.1	---	---	---	---
U.S. government sponsored enterprises	997	0.5	7,004	4.2	7,049	4.4
State and political subdivisions	34,933	16.3	29,821	17.8	23,303	14.4
Mortgage-backed securities-residential	57,347	26.8	36,277	21.7	30,034	18.6
Mortgage-backed securities-multi-family	19,434	9.1	4,058	2.4	2,285	1.4
Other securities	404	0.2	360	0.2	665	0.4
Total securities, held-to-maturity	124,177	58.0	77,520	46.3	63,336	39.2
Total securities	\$214,294	100.0%	\$167,325	100.0%	\$161,607	100.0%

The estimated fair values of debt securities at June 30, 2011 by contractual maturity are set forth in Note 3, Securities of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which is incorporated herein by reference.

Additional discussion of management's decisions with respect to shifting investments among the various investment portfolios described above and the level of mortgage-backed securities is set forth in Management's Discussion and Analysis on page 14-15 of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which discussion is incorporated herein by reference.

Discussion related to the evaluation of the portfolio for other-than-temporary impairment is set forth in Note 1, Summary of significant accounting policies, and Note 3, Securities, of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which is incorporated herein by reference.

Mortgage-Backed and Asset-Backed Securities. The Bank of Greene County and its subsidiary Greene County Commercial Bank purchases mortgage-backed securities in order to: (i) generate positive interest rate spreads with minimal administrative expense; (ii) lower The Bank of Greene County's credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae, and GNMA or other government sponsored enterprises; and (iii) increase liquidity. At June 30, 2011, the carrying value of mortgage-backed securities (including CMOs) totaled \$126.8 million or 23.1% of total assets, of which \$50.0 million were classified as available for sale and \$76.8 million were classified as held to maturity. CMOs or collateralized mortgage obligations as well as other mortgage-backed securities generally are a type of mortgage-backed bond secured by the cash flow of a pool of mortgages. CMOs have regular principal and interest payments made by borrowers separated into different payment streams, creating several bonds that repay invested capital at different rates. The CMO bond may pay the investor at a different rate than the underlying mortgage pool. Often bonds classified as mortgage-backed securities are considered pass-through securities and payments include principal and interest in a manner that makes them self-amortizing. As a result there is no final lump-sum payment at maturity. The Company does not invest in private label mortgage-backed securities due to the potential for a higher level of credit risk. At June 30, 2011, \$668,000 of the mortgage-backed securities were adjustable rate and \$126.1 million were fixed rate. The mortgage-backed securities portfolio had a weighted average yield of 3.75% and a weighted average life (including pre-payment assumptions) of 3.7 years at June 30, 2011. The estimated fair value of Company's mortgage-backed securities at June 30, 2011 was \$128.5 million, which was \$3.3 million greater than amortized cost as set forth in Note 3, Securities of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which discussion is incorporated herein by reference.

The pooling of mortgages and the issuance of a security with an interest rate that is based on the interest rate on the underlying mortgages creates mortgage-backed securities. Mortgage-backed securities typically represent a

participation interest in a pool of single-family or multi-family mortgages. The issuers of such securities (generally U.S. Government sponsored enterprises, including Fannie Mae, Freddie Mac and GNMA) pool and resell the participation interests in the form of securities to investors, such as The Bank of Greene County, and guarantee the payment of principal and interest to these investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. In addition, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize certain liabilities and obligations of The Bank of Greene County and its subsidiary Greene County Commercial Bank.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby altering the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are prepaid. In addition, the market value of such securities may be adversely affected by changes in interest rates. The Company has attempted to mitigate credit risk by limiting purchases of mortgage-backed securities to those offered by various government sponsored enterprises.

Management reviews prepayment estimates periodically to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates and to determine the yield and estimated maturity of Company's mortgage-backed securities portfolio. The Company's \$128.5 million mortgage-backed securities portfolio, based on estimated fair value, at June 30, 2011 consisted of \$30.2 million with contractual maturities within five years, \$45.8 million with contractual maturities of five to ten years and the remaining \$52.5 million with contractual maturities more than 10 years. However, the actual maturity of a security may be less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and thereby reduce or increase the net yield on such securities. Although prepayments of underlying mortgages depend on many factors, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining mortgage interest rates, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that securities prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate of return. Conversely, in a rising interest rate environment prepayments may decline, thereby extending the estimated life of the security and depriving the Company of the ability to reinvest cash flows at the increased rates of interest.

At June 30, 2011, The Bank of Greene County's portfolio of asset-backed securities contained one investment which amounted to \$23,000, or less than 0.1% of total assets, which was classified as available for sale. Asset-backed securities are a type of debt security collateralized by various loans and assets including: automobile loans, equipment leases, credit card receivables, home equity and improvement loans, manufactured housing, student loans and other consumer loans. In the case of The Bank of Greene County, its asset-backed security was collateralized by home equity loans.

Asset-backed securities provide The Bank of Greene County with a broad selection of fixed-income alternatives, most with higher credit ratings and less downgrade risk than corporate bonds and more stable cash flows than mortgage related securities. Prepayments and structure risk of asset-backed securities are less of a concern than CMO securities due to the shorter maturities of the underlying collateral promoting greater stability of payments.

Sources of Funds

General. Deposits, repayments and prepayments of loans and securities, proceeds from sales of securities, and proceeds from maturing securities and cash flows from operations are the primary sources of The Bank of Greene County's funds for use in lending, investing and for other general purposes.

Deposits. The Bank of Greene County and Greene County Commercial Bank offer a variety of deposit accounts with a range of interest rates and terms. The Bank of Greene County's deposit accounts consist of savings, NOW accounts, money market accounts, certificates of deposit and non-interest bearing checking accounts. The Bank of Greene County also offers IRAs or Individual Retirement Accounts. Greene County Commercial Bank offers money market accounts, certificates of deposit and non-interest bearing checking accounts and NOW accounts.

At June 30, 2011, consolidated deposits totaled \$469.9 million. At June 30, 2011, the Company had a total of \$91.5 million in certificates of deposit, of which \$71.9 million had maturities of one year or less. Although a significant portion of our deposits were in shorter-term certificates of deposit, management monitors activity on these accounts and, based on historical experience and our current pricing strategy, believes a large portion of such accounts will be retained upon maturity.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Deposits are obtained predominantly from the areas in which The Bank of Greene County's branch offices are located. The Bank of Greene County relies primarily on competitive pricing of its deposit products and customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect The Bank of Greene County's ability to attract and retain deposits. The Bank of Greene County uses traditional means of advertising its deposit products, including radio, television, print and social media. It generally does not solicit deposits from outside its market area. While The Bank of Greene County accepts certificates of deposit in excess of \$100,000, they are not subject to preferential rates. The Bank of Greene County does not actively solicit such deposits, as they are more difficult to retain than core deposits. Historically, The Bank of Greene County has not used brokers to obtain deposits. Greene County Commercial Bank's purpose is to attract deposits from local municipalities. Greene County Commercial Bank had \$113.3 million in deposits at June 30, 2011.

The following tables set forth information, by various rate categories, regarding the balance of deposits by types of deposit as of the dates indicated.

	At June 30,					
	2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Transaction and savings deposits:						
Non-interest bearing deposits	\$49,313	10.5%	\$44,239	10.5%	\$39,772	10.0%
Savings deposits	111,851	23.8	95,249	22.6	82,620	20.7
Money market deposits	73,795	15.7	63,899	15.1	62,371	15.6
NOW deposits	143,389	30.5	121,436	28.8	114,758	28.8
Total non-certificates of deposit	378,348	80.5	324,823	77.0	299,521	75.1
Certificates of deposit:						
0.00 – 1.99%	52,660	11.2	57,326	13.6	32,874	8.2
2.00 – 2.99%	12,209	2.6	12,063	2.9	32,580	8.2
3.00 – 3.99%	26,498	5.6	26,008	6.1	30,979	7.8
4.00 – 4.99%	182	0.1	1,512	0.4	2,775	0.7
Total certificates of deposit	91,549	19.5	96,909	23.0	99,208	24.9
Total deposits	\$469,897	100.0%	\$421,732	100.0%	\$398,729	100.0%

The amount of certificates of deposit by time remaining to maturity as of June 30, 2011 is set forth in Note 6, Deposits of Greene County Bancorp, Inc.'s Annual Report to Shareholders, which is incorporated herein by reference.

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The following table sets forth the amount and remaining maturities of certificates of deposit accounts at June 30, 2011.

0.00- 1.99%	2.00- 2.99%	3.00- 3.99%	4.00- 4.99%	Percent of Total
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