RIVERVIEW BANCORP INC
Form 10-K
June 12, 2009

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 31, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1838969 (I.R.S. Employer I.D. Number)
900 Washington St., Ste. 900,Vancouver, Washington (Address of principal executive offices)	98660 (Zip Code)
Registrant's telephone number, including area code:	(360) 693-6650
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 $.01 per share	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 X

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 X

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

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

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

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

Large accelerated filer ____ Accelerated filer X 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 Act). Yes No X

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing sales price of the registrant's Common Stock as quoted on the Nasdaq Global Select Market System under the symbol "RVSB" on September 30, 2008 was $65,105,687 (10,923,773 shares at $5.96 per share). As of June 9, 2009, there were issued and outstanding 10,923,773 shares of the registrant’s common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of registrant's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders (Part III).

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PART I

Item 1. Business

General

Riverview Bancorp, Inc. (the “Company"), a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the “Bank”). At March 31, 2009, the Company had total assets of $914.3 million, total deposit accounts of $670.1 million and shareholders' equity of $88.7 million. The Company’s executive offices are located at 900 Washington Street, Vancouver Washington. All references to the Company herein include the Bank where applicable.

Substantially all of the Company’s business is conducted through the Bank which is regulated by the Office of Thrift Supervision ("OTS"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund ("DIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") of Seattle since 1937.

The Company is a progressive, community-oriented financial services company, which emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah, Clackamas and Marion counties of Oregon as its primary market area. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial, commercial real estate, multi-family real estate, real estate construction, residential real estate and other consumer loans. Commercial and construction loans have grown from 82.47% of the loan portfolio at March 31, 2005 to 89.16% of the loan portfolio at March 31, 2009, increasing the risk profile of our total loan portfolio.

The Company’s strategic plan includes targeting the commercial banking customer base in its primary market area, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company manages growth diversification while including a significant amount of commercial and commercial real estate loans in its portfolio. Significant portions of these new loan products carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages. A related goal is to increase the proportion of personal and business checking account deposits used to fund these new loans. The strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. The Company is well positioned to attract new customers and to increase its market share with eighteen branches including ten in Clark county, three in the Portland metropolitan area and four lending centers.

In order to support its strategy of growth without compromising its local, personal service to its customers and a commitment to asset quality, the Company has made significant investments in experienced branch, lending, asset management and support personnel and has incurred significant costs in facility expansion and in infrastructure development. The Company’s efficiency ratios reflect this investment and will likely remain relatively high by industry standards for the foreseeable future as a result of the emphasis on growth and local, personal service. Working to control non-interest expenses remains a high priority for the Company’s management.

The Company continuously reviews new products and services to provide its customers more financial options. All new technology and services are generally reviewed for business development and cost saving purposes. In-house processing of checks and check imaging has supported the Bank’s increased service to customers and at the same time has increased efficiency. The Bank has implemented remote check capture at selected branches and is in the process of implementing remote capture of checks on site for selected customers of the Bank. The Bank has increased its emphasis on enhancing its cash management product line with the hiring of an experienced cash management officer. The formation of a team consisting of this cash management officer and existing Bank employees is expected to lead to an improved cash management product line for the Bank's commercial customers. The Company continues to experience growth in customer use of its online banking services, which allows customers to conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. The Company's online service has also enhanced the delivery of cash management services to commercial customers. During the second quarter of fiscal 2009, the Company began offering Certificate of Deposit Registry Service (CDARS™) deposits. Through the CDARS program, customers can access FDIC insurance up to $50 million. The Company also implemented Check 21 during the second

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quarter of fiscal 2009, which allows the Company to process checks faster and more efficiently. In December 2008, the Company began operating as a merchant bankcard "agent bank" facilitating credit and debit card transactions for business customers through an outside merchant bankcard processor. This allows the Company to underwrite and approve merchant bankcard applications and retain interchange income that, under its previous status as a "referral bank", was earned by a third party. A branch manager of the Bank, who previously had experience in leading similar merchant bankcard programs with other community financial institutions, currently manages the merchant bankcard service.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, and in particular the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section under Item 7 of this report, contains statements that the Company believes are "forward-looking statements." These statements relate to the Company's financial condition, results of operations, plans, objectives, future performance or business. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the OTS by the FDIC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses or to write-down assets; our ability to comply with an agreements entered into with the OTS or FDIC, including the recent Memorandum of Understanding entered into with the OTS; our ability to control operating costs and expenses; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; legislative or regulatory changes that adversely affect our business; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board; war or terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in Item 1A, "Risk Factors," of this report. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. The Company does not undertake to update any forward-looking statement that may be made on behalf of the Company.

Market Area

The Company conducts operations from its home office in Vancouver and eighteen branch offices in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland (two branch offices), Wood Village and Aumsville, Oregon. The Company operates a trust and financial services company, Riverview Asset Management Corp. ("RAMCorp"), located in downtown Vancouver. Riverview Mortgage, a mortgage broker division of the Bank, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Bank. The Business and Professional Banking Division, with two lending offices in Vancouver and two lending offices in Portland, offers commercial and business banking services.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Companies located in the Vancouver area include Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory, Wafer Tech, Nautilus and Barrett Business Services, as well as several support industries. In addition to this industry base, the Columbia River Gorge Scenic Area is a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

Prior to 2008, national real estate and home values increased substantially, as a result of the generally strong national economy, speculative investing, and aggressive lending practices that provided loans to marginal borrowers (generally termed as "subprime" loans). That strong economy also resulted in significant increases in residential and commercial real estate values and commercial and residential construction. The national and regional residential lending market, however, experienced a notable slowdown in 2008, and loan delinquencies and foreclosure rates have increased. Foreclosures and delinquencies are also being driven by investor speculation in many states, while job losses and depressed economic conditions have resulted in the higher levels of delinquent loans. The continued economic downturn, and more specifically the continued slowdown in residential real estate sales, has resulted in further uncertainty in the financial markets. During the fiscal year ended 2009, the local economy has continued to slow. Unemployment in Clark County increased to 12.5% in March 2009 compared with 6.3% in March 2008. Home values in the Portland/Vancouver area at March 31, 2009 were lower than home values last year, with certain areas seeing more significant declines. The local area has seen a reduction in new residential building starts which continued through fiscal year 2009. Commercial real estate leasing activity in the Portland/Vancouver area, however, has remained steady, but it is generally affected by a slow economy later than other indicators. Commercial vacancy rates in Clark County have continued to increase through the fiscal year ended March 31, 2009. As a result of these and other factors, the Company has experienced a further decline in the values of real estate collateral supporting certain of its construction real estate and land acquisition and development loans, has experienced increased loan delinquencies and defaults, and sees signs for potential further increased loan delinquencies and defaults. In addition, competition among financial institutions for deposits has also continued to increase, making it more expensive to attract core deposits.

Lending Activities

General. At March 31, 2009, the Company's net loans receivable totaled $784.1 million, or 85.8% of total assets at that date. The principal lending activity of the Company is the origination of loans collateralized by commercial properties, land for development and residential construction loans as well as commercial loans (C&I loans). A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area.

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	At March 31,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial and construction:										
Commercial	$ 127,150	15.87 %	$ 109,585	14.28 %	$ 91,174	13.18 %	$ 90,083	14.29 %	$ 78,280	18.04%
Other real estate mortgage	447,652	55.88	429,422	55.97	360,930	52.19	329,631	52.31	220,813	50.90
Real estate construction	139,476	17.41	148,631	19.37	166,073	24.01	137,598	21.83	58,699	13.53
Total commercial and construction	714,278	89.16	687,638	89.62	618,177	89.38	557,312	88.43	357,792	82.47
Consumer:										
Real estate one-to-four family	83,762	10.46	75,922	9.90	69,808	10.10	64,026	10.16	68,945	15.89
Other installment	3,051	0.38	3,665	0.48	3,619	0.52	8,899	1.41	7,107	1.64
Total consumer loans	86,813	10.84	79,587	10.38	73,427	10.62	72,925	11.57	76,052	17.53
Total loans	801,091	100.00 %	767,225	100.00 %	691,604	100.00 %	630,237	100.00 %	433,844	100.00%
Less:										
Allowance for loan losses	16,974		10,687		8,653		7,221		4,395	
Total loans receivable, net	$ 784,117		$ 756,538		$ 682,951		$ 623,016		$ 429,449	

Loan Portfolio Composition. The following table sets forth the composition of the Company's commercial and construction loan portfolio based on loan purpose at the dates indicated.

COMPOSITION OF COMMERCIAL AND CONSTRUCTION LOAN TYPES BASED ON LOAN PURPOSE

March 31, 2009	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
		(Dollars in thousands)		
Commercial	$ 127,150	$ -	$ -	$ 127,150
Commercial construction	-	-	65,459	65,459
Office buildings	-	90,621	-	90,621
Warehouse/industrial	-	40,214	-	40,214
Retail/shopping centers/strip malls	-	81,233	-	81,233
Assisted living facilities	-	26,743	-	26,743
Single purpose facilities	-	88,574	-	88,574
Land	-	91,873	-	91,873
Multi-family	-	28,394	-	28,394
One-to-four family construction	-	-	74,017	74,017
Total	$ 127,150	$ 447,652	$ 139,476	$ 714,278

March 31, 2008	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
		(Dollars in thousands)		
Commercial	$ 109,585	$ -	$ -	$ 109,585
Commercial construction	-	-	55,277	55,277
Office buildings	-	88,106	-	88,106
Warehouse/industrial	-	39,903	-	39,903
Retail/shopping centers/strip malls	-	70,510	-	70,510
Assisted living facilities	-	28,072	-	28,072
Single purpose facilities	-	65,756	-	65,756
Land	-	108,030	-	108,030
Multi-family	-	29,045	-	29,045
One-to-four family construction	-	-	93,354	93,354
Total	$ 109,585	$ 429,422	$ 148,631	$ 687,638

Commercial Lending. Commercial loans are generally made to customers who are well known to the Company and are typically secured by business assets or other property. The Company’s commercial loans may be structured as term loans or as lines of credit. Commercial term loans are generally made to finance the purchase of assets and usually have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and usually have a term of one year or less. Lines of credit are made at variable rates of interest equal to a negotiated margin above an index rate and term loans are at either a variable or fixed rate. The Company also generally obtains personal guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

Other Real Estate Mortgage Lending. At March 31, 2009, the other real estate lending portfolio totaled $447.7 million, or 55.88% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities (collectively "commercial real estate loans); as well as land and multi-family primarily located in our market area. At March 31, 2009, owner occupied properties accounted for 30% of the Company's commercial real estate portfolio and non-owner occupied properties accounted for 70%.

The Company actively pursues commercial real estate loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. The Bank generally imposes a minimum debt service coverage ratio of 1.20 for loans secured by income producing properties.

Land acquisition and development loans are included in the other real estate mortgage portfolio balance, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees may provide an additional measure of security for such loans. Strong demand for housing has led to loan growth in this category in recent years. However, the recent nationwide downturn in real estate has slowed lot and home sales within the Company's markets. This has impacted certain developers by lengthening the marketing period of their projects and negatively affecting borrower's liquidity and collateral values. At March 31, 2009, land acquisition and development loans totaled $91.9 million, or 11.47% of total loans. The largest loan had an outstanding balance of $6.1 million and was performing according to its original terms. With the exception of three loans totaling $5.8 million, all of the land acquisition and development loans were secured by properties located in Washington and Oregon. At March 31, 2009, the Company had seven land acquisition and development loans totaling $5.8 million on non-accrual status.

Both fixed and adjustable-rate loans are offered on other real estate loans. Adjustable-rate other real estate loans are originated with rates that generally adjust after an initial period ranging from one to five years. Adjustable-rate other real estate loans are generally priced utilizing the FHLB of Seattle's fixed advance rate for an equivalent period plus a margin ranging from 2.5% to 3.5%, with principal and interest payments fully amortizing over terms up to 30 years. These loans generally have a prepayment penalty.

Real Estate Construction. The real estate construction loan portfolio, not including loan commitments, totaled $139.5 million at March 31, 2009. The Company originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. The Company also originates construction loans for the development of business properties and multi-family dwellings. All of the Company's real estate construction loans were made on properties located in Washington and Oregon.

The composition of the Company's construction loan portfolio including loan commitments at was as follows:

	At March 31,			
	2009		2008	
	Amount (1)	Percent	Amount (1)	Percent
	(Dollars in thousands)			

Speculative construction	$ 60,494	37.45%	$ 91,704	44.57%
Commercial/multi-family construction	77,842	48.19	92,140	44.79
Custom/presold construction	11,337	7.02	11,661	5.67
Construction/permanent	11,864	7.34	10,235	4.97
Total	$ 161,537	100.00%	$ 205,740	100.00%

(1) Includes loans in process of $22.1 million and $57.1 million at March 31, 2009 and 2008, respectively.

Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to debt service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until a home buyer is identified. Included in speculative construction loans are loans to finance the construction of townhouses and condominiums. At March 31, 2009, loans for the construction of townhouses and condominiums totaled $11.6 million and $28.6 million, respectively. At March 31, 2009, the Company had sixteen borrowers with aggregate outstanding loan balances of more than $1.0 million, which totaled $42.7 million (the largest of which was $7.7 million) and were secured by properties located in the Company's market area. At March 31, 2009, five speculative construction loans totaling $12.1 million were on non-accrual status.

The composition of the speculative construction and land development loans by geographical area is as follows:

March 31, 2009	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Other	Total
			(In thousands)			
Land development	$ 6,659	$ 9,130	$ 66,776	$ 3,540	$ 5,768	$ 91,873
Speculative construction	14,706	15,730	24,974	2,343	-	57,753
Total spec and land construction	$ 21,365	$ 24,860	$ 91,750	$ 5,883	$ 5,768	$ 149,626

Unlike speculative construction loans, presold construction loans are made for homes that have buyers. Presold construction loans are made to homebuilders who, at the time of construction, have a signed contract with a home buyer who has a commitment for permanent financing for the finished home from the Company or another lender. Custom construction loans are made to the homeowner. Custom/presold construction loans are generally originated for a term of 12 months. At March 31, 2009, the largest custom construction loan and presold construction loan had outstanding balances of $2.2 million and $949,000, respectively, and were performing according to their original terms. At March 31, 2009, the Company had two custom or presold construction loans on non-accrual status totaling $344,000.

Construction/permanent loans are originated to the homeowner rather than the homebuilder along with a commitment by the Company to originate a permanent loan to the homeowner to repay the construction loan at the completion of construction. The construction phase of a construction/permanent loan generally lasts six to nine months. At the completion of construction, the Company may either originate a fixed rate mortgage loan or an adjustable rate mortgage ("ARM") loan or use its mortgage brokerage capabilities to obtain permanent financing for the customer with another lender. At completion of construction, the Company-originated fixed rate permanent loan's interest rate is set at a market rate and for adjustable rate loans, the interest rates adjust on their first adjustment date. See "—Mortgage Brokerage," and "—Mortgage Loan Servicing." At March 31, 2009, the largest outstanding construction/permanent loan had an outstanding balance of $748,000 and was performing according to its original terms. At March 31, 2009, the Company had one construction/permanent loan on non-accrual status totaling $239,000.

The Company provides construction financing for non-residential business properties and multi-family dwellings. At March 31, 2009, such loans totaled $65.5 million, or 47.0% of total real estate construction loans and 8.2% of total loans. Borrowers may be the business owner/occupier of the building who intends to operate its business from the property upon construction, or non-owner developers. The expected source of repayment of these loans is typically the sale or refinancing of the project upon completion of the construction phase. In certain circumstances, the Company may provide or commit to take-out financing upon construction. Take-out financing is subject to the project meeting specific underwriting guidelines. No assurance can be given that such take-out financing will be available upon project completion. These loans are secured by office buildings, retail rental space, mini storage facilities, assisted living facilities and multi-family dwellings located in the Company's market area. At March 31, 2009, the largest commercial construction loan had a balance of $7.7 million and was performing according to its original terms. At March 31, 2009, the Company had one commercial construction loan on non-accrual status totaling $75,000.

Construction lending affords the Company the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project, as well as the time needed to sell the property at completion. The nature of these loans is such that they are generally more difficult to evaluate and monitor. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Consumer Lending. Consumer loans totaled $86.8 million at March 31, 2009, or 10.84% of total loans. Consumer lending is comprised of one-to-four family mortgage loans, home equity lines of credit, land loans to consumers for the future construction of one-to-four family homes, totaling $83.8 million, and other secured and unsecured consumer loans, totaling $3.1 million at March 31, 2009.

One-to-four family residences located in the Company's primary market area secure the majority of the residential loans. Underwriting standards require that one-to-four family portfolio loans generally be owner occupied and that loan amounts not exceed 80% or (95% with private mortgage insurance) of the lesser of current appraised value or cost of the underlying collateral. Terms typically range from 15 to 30 years. The Company also offers balloon mortgage loans with terms of either five or seven years and originates both fixed rate mortgages and ARMs with repricing based on one-year constant maturity U.S. Treasury index or other index. At March 31, 2009, the Company had eight one-to-four family loans totaling $1.3 million on non-accrual status.

The Company originates a variety of installment loans, including loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans. Consumer loans generally entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as mobile homes, automobiles, boats and recreational vehicles. At March 31, 2009, the Company had no installment loans on non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2009 regarding the dollar amount of loans maturing in the Company's portfolio based on their contractual terms to maturity, but does not include potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances are reported net of deferred fees.

	Within 1 Year	1 – 3 Years	After 3 – 5 Years	After 5 – 10 Years	Beyond 10 Years	Total
Commercial and construction:			(Dollars in thousands)			
Commercial						
Adjustable rate	$ 69,579	$ 6,171	$ 4,947	$ 16,716	$ -	$ 97,413
Fixed rate	2,624	14,891	11,222	1,000	-	29,737
Other real estate mortgage						
Adjustable rate	89,484	12,255	23,382	222,845	20,015	367,981
Fixed rate	6,356	21,301	22,960	27,633	1,421	79,671
Real estate construction						
Adjustable rate	82,825	99	475	18,418	4,087	105,904
Fixed rate	23,742	3,829	2,323	3,678	-	33,572
Total commercial & construction	274,610	58,546	65,309	290,290	25,523	714,278
Consumer:						
Real estate one-to-four family						
Adjustable rate	355	217	210	3,005	43,811	47,598
Fixed rate	1,902	11,071	5,211	720	17,260	36,164
Other installment						
Adjustable rate	44	-	-	621	-	665
Fixed rate	494	555	973	267	97	2,386

Total consumer	2,795		11,843		6,394		4,613		61,168		86,813
Total net loans	$ 277,405	$	70,389	$	71,703	$	294,903	$	86,691	$	801,091

Loan Solicitation and Processing. The Company's lending activities are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Board of Directors ("Board") and management. The customary sources of loan originations are realtors, walk-in customers, referrals and existing customers. The Company also uses commissioned loan brokers and print advertising to market its products and services.

The Company's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, the adequacy of the value of the property that will secure the loan, if any, and in the case of commercial and multi-family real estate loans, the cash flow of the project and the quality of management involved with the project. The Company's lending policy requires borrowers to obtain certain types of insurance to protect the Company's interest in any collateral securing the loan. Loans are approved at various levels of management, depending upon the amount of the loan.

Loan Commitments. The Company issues commitments to originate commercial loans, other real estate mortgage loans, construction loans, residential mortgage loans and other installment loans conditioned upon the occurrence of certain events. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to originate loans are conditional, and are honored for up to 45 days subject to the Company's usual terms and conditions. Collateral is not required to support commitments. At March 31, 2009, the Company had outstanding commitments to originate loans of $7.2 million, compared to $44.3 million at March 31, 2008. The decrease in loan commitments is primarily due to a slowdown in loan demand as a result of the downturn in the local economy, and due to the tightening of underwriting standards by the Company. The Company expects loan demand and growth to remain slow in the coming fiscal year.

Mortgage Brokerage. In addition to originating mortgage loans for retention in its portfolio, the Company employs eleven commissioned brokers who originate mortgage loans (including construction loans) for various mortgage companies, as well as for the Company. The loans brokered to mortgage companies are closed in the name of and funded by the purchasing mortgage company and are not originated as an asset of the Company. In return, the Company receives a fee ranging from 1.0% to 1.5% of the loan amount that it shares with the commissioned broker. Loans brokered to the Company are closed on the Company's books and the commissioned broker receives a fee of approximately 0.55% of the loan amount. During the year ended March 31, 2009, brokered loans totaled $124.5 million (including $41.3 million brokered to the Company), compared to $206.7 million of brokered loan in fiscal year 2008. Gross fees of $840,000 (excluding the portion of fees shared with the commissioned brokers) were recognized for the year ended March 31, 2009. The interest rate environment has a strong influence on the loan volume and amount of fees generated from the mortgage broker activity. In general, during periods of rising interest rates the volume of loans and the amount of loan fees generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of loan fees generally increase as a result of the increased mortgage loan demand. Due to the slowdown in the real estate markets during fiscal year 2009, the loan volume and amount of fees generated decreased compared to previous years.

Mortgage Loan Servicing. The Company is a qualified servicer for the Federal Home Loan Mortgage Corporation ("FHLMC"). The Company generally sells fixed-rate residential one-to-four mortgage loans that it originates with maturities of 15 years or more and balloon mortgages to the FHLMC as part of its asset liability strategy. Mortgage loans are sold to FHLMC on a non-recourse basis whereby foreclosure losses are generally the responsibility of FHLMC and not the Company. The Company's general policy is to close its residential loans on the FHLMC modified loan documents to facilitate future sales to FHLMC. Upon sale, the Company continues to collect payments on the loans, to supervise foreclosure proceedings, and to otherwise service the loans. At March 31, 2009, total loans serviced for others were $126.8 million, of which $108.9 million were serviced for FHLMC.

Nonperforming Assets. Loans are reviewed regularly and it is the Company's general policy that when a loan is 90 days delinquent or when collection of principal or interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for any unrecoverable accrued interest is established and charged against operations. Typically, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cash-basis method.

Nonperforming assets were $41.7 million or 4.57% of total assets at March 31, 2009 compared with $8.2 million o