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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-38224

PDL Community Bancorp
(Exact name of Registrant as specified in its Charter)

Federal **(State or other jurisdiction of incorporation or organization)**	**82-2857928** **(I.R.S. Employer Identification No.)**
2244 Westchester Avenue **Bronx, NY** **(Address of principal executive offices)**	**10462** **(Zip Code)**

Registrant's telephone number, including area code: (718) 931-9000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	PDLB	The NASDAQ Stock Market, LLC

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262 (b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on March 25, 2021 was $70,826,239.

As of March 25, 2021, the registrant had 17,024,207 shares of common stock, $0.01par value per share, outstanding.

Documents Incorporated by Reference
Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders, schedule to be held on May 25, 2021, are incorporated into Part III hereof.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “assume,” “plan,” “seek,” “expect,” “will,” “may,” “should,” “indicate,” “would,” “believe,” “contemplate,” “continue,” “target” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this annual report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- the continuing impact of the Dodd-Frank Act and the implementing regulations;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;

- the inability of third party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current and future economic environment;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits, generally and related to the COVID-19 pandemic;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we may own.

PART I

Item 1. Business

PDL Community Bancorp

PDL Community Bancorp (hereafter referred to as "we," "our," "us," "PDL Community Bancorp," or the "Company"), is the majority-owned subsidiary of Ponce Bank Mutual Holding Company, a mutual form savings and loan holding company. PDL Community Bancorp is the holding company of Ponce Bank ("Ponce Bank" or the "Bank"), a federally─chartered stock savings association, and Mortgage World Bankers, Inc. ("Mortgage World"), a licensed New York State mortgage banker. The Company is authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies, which may include the acquisition of banking and financial services companies. The Company has been approved as a Financial Holding Company and may exercise such powers as are permitted by applicable laws and regulations.

The Company's cash flow is dependent on earnings from investments and any dividends received from Ponce Bank and Mortgage World. PDL Community Bancorp does not own nor lease any property, but instead uses the premises, equipment and furniture of Ponce Bank and Mortgage World. At the present time, the Company employs only persons who are officers of Ponce Bank and Mortgage World to serve as officers of PDL Community Bancorp. It uses the support staff of Ponce Bank from time to time. These persons are not separately compensated by PDL Community Bancorp. PDL Community Bancorp may hire additional employees, as appropriate, to the extent it so determines in the future.

The Company's executive office is located at 2244 Westchester Avenue, Bronx, New York 10462, and the telephone number at that address is (718) 931-9000.

Available Information

Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), PDL Community Bancorp is required to file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The Company electronically files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports as required with the SEC. The SEC website, www.sec.gov, provides access to all Company filings which have been filed electronically. Additionally, the Company's SEC filings and additional shareholders' information are available free of charge on the Bank's website, www.poncebank.com (within the Investor Relations section). The references to our website address and the SEC's website address do not constitute incorporation by reference of the information contained in those websites and should not be considered part of this annual report.

The Company's common stock is traded on the NASDAQ Global Market under the symbol "PDLB."

Ponce Bank

Ponce Bank is a federally-chartered stock savings association headquartered in the Bronx, New York. Ponce Bank was originally chartered in 1960 as a federally-chartered mutual savings and loan association under the name Ponce De Leon Federal Savings and Loan Association. In 1985, the Bank changed its name to "Ponce De Leon Federal Savings Bank." In 1997, the Bank changed its name again to "Ponce De Leon Federal Bank." In 2017, the Bank adopted its current name. The Bank is designated as a Minority Depository Institution and a Community Development Financial Institution under applicable regulations and is a certified Small Business Administration lender.

The Bank's business is conducted through its administrative office and 13 branch banking offices. The banking offices are located in Bronx (4 branches), Manhattan (2 branches), Queens (3 branches) and Brooklyn (3 branches), New York, and Union City (1 branch), New Jersey.

The Bank's business primarily consists of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans, consisting of one-to-four family residential (both investor-owned and owner-occupied), multifamily residential, nonresidential properties, construction and land, and in business and consumer loans. The Bank also invests in securities, which have historically consisted of U.S. government and federal agency securities and securities issued by government-sponsored or owned enterprises, as well as, mortgage-backed securities, corporate bonds and Federal Home Loan Bank of New York (the "FHLBNY") stock. The Bank offers a variety of deposit accounts, including demand, savings, money markets and certificates of deposit accounts.

Mortgage World Bankers, Inc.

On July 10, 2020, the Company completed its acquisition of Mortgage World. Mortgage World is a mortgage banking entity subject to the comprehensive regulation and examination of the New York State Department of Financial Services. The primary business of Mortgage World is the taking of applications from the general public for residential mortgage loans, underwriting them to investors' standards, closing and funding them and holding them until they are sold to investors. Although Mortgage World is permitted to do business in various states (New York, New Jersey, Pennsylvania, Florida and Connecticut), it primarily operates in the New York City metropolitan area.

Market Area

The Bank is headquartered in the Bronx, New York, with a primary market in the other boroughs of New York City (excluding Staten Island) and Hudson County, New Jersey. Mortgage World is headquartered in Astoria, Queens, with a primary market area in the New York City metropolitan area. The size and complex nature of the geographic footprint makes for diverse demographics that continue to undergo significant changes, in terms of economic, racial, ethnic and age parameters, all with potentially substantial long-term institutional ramifications.

The Bank's primary deposit base includes a large and stable base of locally employed blue-collar workers with low-to-medium income, middle-aged, and with limited investment funds. Within the base of locally employed blue-collar workers there is a significant, and growing, portion of recently immigrated, younger, lower-skilled laborers. The influx of immigrant lower-skilled workers, however, has been hampered by the increases in rental rates in the rental housing market within the New York City metropolitan area.

Another significant customer segment of the Bank consists of middle aged and older white-collar, high-income individuals, many of whom are self-employed real estate investors and developers. They constitute a large percentage of the borrowing base of the Bank and, increasingly, are becoming the source of a significant percentage of commercial deposits.

The Bank has historically been funded through local community deposits. Today, the Bank continues to rely primarily on community deposits from its market areas to fund investments and loans. However, the mix of community deposits now includes demand and money market funds of consumer, commercial and not-for-profit entities, with a decreasing reliance on time deposits. Additionally, the Bank has been using alternative funding sources such as brokered deposits and FHLBNY advances to support loan growth.

Mortgage World traditionally has relied on the home purchase market as its principal source of loans for sale in the secondary market. The advent of historically low interest rates has enabled Mortgage World to successfully enter the home refinance market.

The Bank's market was significantly impacted negatively by the COVID-19 pandemic. The COVID-19 pandemic caused substantial economic slowdowns, leading to unemployment, closures of businesses and other hardships. The federal government response, including lowering of interest rates, Paycheck Protection Program lending, extended unemployment benefits and business assistance, provided notable economic support, leading to significant economic recovery. During the COVID-19 pandemic, the Bank and Mortgage World continued to service the market area.

Competition

The Company faces significant competition within its market area both in originating loans and attracting deposits. There is a high concentration of financial institutions in the market area, including national, regional and other locally-operated commercial banks, savings banks, savings associations and credit unions whose activities include banking as well as mortgage lending. Several "mega" banks exist in the market, such as JPMorgan Chase, Citibank and Capital One, many of whom are continuing to push for retail deposits and home mortgages. A number of the Bank's competitors offer non-deposit products and services that the Bank does not currently offer, such as trust services, private banking, insurance services and asset management. Additionally, the Company faces an increasing level of competition from non-core financial service providers that do not necessarily maintain a physical presence in the

Bank’s market area, such as Radius Bank, Quicken Loans, Freedom Mortgage and many internet financial service providers. The amount of competition facing the Company is extensive and can negatively impact its growth.

The market share of bank deposits in the New York area can be difficult to quantify, as some “mega” banks will include large scale deposits from around the world as held at headquarters. However, in Bronx County, New York, where the Bank maintains four branches, it holds 1.72% (as of June 30, 2020) of the market’s deposits. This represents the Bank’s largest market share in a county-level area. The Bank continues to work to improve its market position by expanding its brand within its current market area, and building its capacity to provide more products and services to its customers.

Lending Activities

General. The Bank’s principal lending activity is originating real estate-secured loans, including one-to-four family investor-owned and owner-occupied residential, multifamily residential, nonresidential property, construction and land loans, and commercial and industrial (“C&I”) business loans and consumer loans. It originates real estate and other loans through its loan officers, marketing efforts, customer base, walk-in customers and referrals from real estate brokers, builders and attorneys. Most recently, the Bank entered into a partnership with Grain Technologies, LLC. (“Grain”). Grain provides a line of credit using a mobile application geared nationally to the underbanked and new generations entering the financial services market that uses non-traditional underwriting methodologies. These loans are reflected in the consumer loan portfolio. During 2020, the Bank focused on making PPP loans within its market area, to both customers and non-customers. The Bank remains committed to assist its communities with PPP loans. Subject to market conditions and its asset-liability analysis, the Bank looks to maintain its emphasis on multifamily residential and nonresidential property loans while growing the overall loan portfolio and increasing the overall yield earned on loans.

Lending activities are conducted primarily by the Bank’s salaried loan officers operating at its main and branch office locations as well as remotely. It also conducts lending activities through its subsidiary Ponce De Leon Mortgage Corporation. All loans originated by the Bank are underwritten pursuant to its policies and procedures. The Bank currently intends that substantially all of its mortgage loan originations will have adjustable interest rates. For its non-PPP business loan originations, variable rate pricing is offered based on prime rate plus a margin.

Mortgage World’s lending activities consists of taking applications from the general public for residential mortgage loans, underwriting them to investors’ standards, closing and funding them and holding them until they are sold to investors. At December 31, 2020, 70 loans related to Mortgage World in the amount of $34.4 million were held for sale and accounted for under the fair value option accounting guidance for financial assets and financial liabilities. Because of Mortgage World’s business and all of its loans are held for sale, they are not included in the discussion that follows. See Note 13, “Fair Value” of the Notes to the accompanying Consolidated Financial Statements.

Loan Portfolio Composition. The following table sets forth the composition of the Bank's loan portfolio by type of loan (excluding mortgage loans held for sale) at the dates indicated. Loans in process at December 31, 2020 and December 31, 2019 were $101.1 million and $58.1 million, respectively.

	At December 31,									
	2020		2019		2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Mortgage loans:										
1-4 family residential										
Investor-owned	$ 319,596	27.27%	$ 305,272	31.60%	$ 303,197	32.61%	$ 287,158	35.51%	$ 227,409	34.90%
Owner-occupied	98,795	8.43%	91,943	9.52%	92,788	9.98%	100,854	12.47%	97,631	14.98%
Multifamily residential	307,411	26.23%	250,239	25.90%	232,509	25.01%	188,550	23.31%	158,200	24.28%
Nonresidential properties	218,929	18.68%	207,225	21.45%	196,917	21.18%	151,193	18.70%	121,500	18.64%
Construction and land	105,858	9.03%	99,309	10.28%	87,572	9.42%	67,240	8.31%	30,340	4.66%
Total mortgage loans	1,050,589	89.64%	953,988	98.75%	912,983	98.20%	794,995	98.30%	635,080	97.46%
Nonmortgage loans:										
Business loans (1)	94,947	8.10%	10,877	1.13%	15,710	1.69%	12,873	1.59%	15,719	2.41%
Consumer loans (2)	26,517	2.26%	1,231	0.12%	1,068	0.11%	886	0.11%	843	0.13%
Total nonmortgage loans	121,464	10.36%	12,108	1.25%	16,778	1.80%	13,759	1.70%	16,562	2.54%
	1,172,053	100.00%	966,096	100.00%	929,761	100.00%	808,754	100.00%	651,642	100.00%
Net deferred loan origination costs	1,457		1,970		1,407		1,020		711	
Allowance for losses on loans	(14,870)		(12,329)		(12,659)		(11,071)		(10,205)	
Loans, net	$ 1,158,640		$ 955,737		$ 918,509		$ 798,703		$ 642,148	

(1) Includes $85.3 million of PPP loans at December 31, 2020.
(2) Includes $25.5 million of loans related to Grain at December 31, 2020.

At December 31, 2020 and 2019, there was one mortgage loan held for sale, at fair value in the amount of $1.0 million related to the Bank.

Loan Products Offered by the Bank. The following table provides a breakdown of the Bank's loan portfolio by product type and principal balance outstanding at December 31, 2020, excluding mortgage loans held for sale.

At December 31, 2020

Loan Type	**# of Loans**	**Principal Balance (In thousands)**	**% of Portfolio**
Mortgage loans:			
1-4 Family residential			
Investor-owned	551	$ 319,596	27.27%
Owner-occupied	247	98,795	8.43%
Multifamily residential	297	307,411	26.23%
Nonresidential properties	203	218,929	18.68%
Construction and land			
Construction 1-4 Investor	1	405	0.03%
Construction Multifamily	23	95,105	8.11%
Construction Nonresidential	3	10,348	0.89%
Nonmortgage loans:			
Business loans			
C&I lines of credit	46	5,794	0.49%
C&I loans (term)	13	3,813	0.33%
PPP loans	957	85,340	7.28%
Consumer loans			
Unsecured (1)	37,893	25,780	2.20%
Passbook	90	737	0.06%
Grand Total	**40,324**	**$ 1,172,053**	**100.00%**

(1) Includes 37,858 loans totaling $25.5 million originated by the Bank pursuant to its arrangement with Grain.

One-to-four Family Investor-Owned Loans. At December 31, 2020, one-to-four family investor-owned loans were $319.6 million, or 27.3% of the Bank's total loans. Investor-owned mortgage loans secured by non-owner-occupied one-to-four family residential property represent the Bank's largest real estate lending category. The majority of the portfolio, $278.6 million, or 87.2%, are two-to-four family properties (462 accounts), while the remaining $41.0 million, or 12.8%, are primarily single family, non-owner-occupied investment properties (89 accounts). The three largest loans in this category are $4.7 million, $3.0 million and $2.9 million. In this category, loans totaling $121.8 million, or 38.1%, are secured by properties located in Queens County, $113.8 million, or 35.6%, in Kings County, $36.0 million, or 11.3%, in Bronx County, and $17.1 million, or 5.3%, in New York County. The rest of this category, less than 9.7%, is spread out in other counties and no other concentration exceeded $8.2 million, or 2.6%.

The Bank imposes strict underwriting guidelines in the origination of such loans, including lower maximum loan-to-value ratios ("LTVs") of 70% on purchases and 65% on refinances, a required minimum debt service coverage ratio ("DSCR," net operating income divided by debt service requirement) of 1.20x that must be met by either the property on a standalone basis or by the inclusion of the owner(s) as co-borrower(s). In addition, all such loans currently require that the transaction exhibit a global debt service coverage ratio (net operating income divided by debt service requirement) of no less than 1.0x. This coverage ratio indicates that the owner has the capacity to support the loan along with all personal obligations. On occasion, the Bank has required that the borrower establish a cash reserve to be held at the Bank in order to provide additional security. The maximum term on such loans is 30 years, typically with five-year adjustable rates. Because of the COVID-19 pandemic, the Bank adopted temporary guidelines lowering LTVs by 5 percentiles and increasing DSCRs by 10 percentiles.

One-to-four family investor-owned real estate loans involve a greater degree of risk than one-to-four family owner-occupied real estate loans. Rather than depending on the borrower's repayment ability from employment or other income, the borrower's repayment ability is primarily dependent on ensuring that a tenant occupies the investor property and has the financial capacity to pay sufficient rent to cover the borrower's debt. In addition, if an investor borrower has several loans secured by properties in the same market, the loans have risks similar to a multifamily real estate loan and repayment of those loans is subject to adverse conditions in the rental market or the local economy.

One-to-four Family Owner-occupied Loans. One-to-four family owner-occupied loans totaled $98.8 million, or 8.4% of the Bank's total loan portfolio at December 31, 2020. Of the three largest loans outstanding in this category, one loan had an outstanding balance of $2.2 million and two loans had outstanding balances of $2.0 million each. There are 20 loans with an outstanding balance in excess of $1.0 million, totaling $27.1 million, or approximately 27.4% of this category. At December 31, 2020, approximately $36.1 million, or 36.6%, of this category was secured by properties located in Queens County, $15.7 million, or 15.9%, in Kings County, $9.3 million, or 9.4%, in Nassau County, $8.1 million, or 8.2%, in New York County, $7.1 million, or 7.2%, in Bronx County, and $6.2 million, or 6.3%, in Westchester County. None of the other geographical concentrations exceeded 6% of this category.

It is the Bank's policy to underwrite loans secured by one-to-four family owner-occupied residential real estate in a manner that ensures strict compliance with Dodd-Frank regulatory requirements. This includes underwriting only mortgages that have a debt-to-income ratio of 43% or less. That is the highest ratio a borrower can have and still receive a qualified mortgage. A qualified mortgage is presumed to meet the borrower's ability to repay the loan. As part of this effort, the Bank employs software that tests each loan for compliance.

The Bank generally limits loans in this category to a maximum loan-to-value ratio of 90% for a purchase and 80% for a refinance, based on the lower of the purchase price or appraised value. The maximum loan term is 30 years, self-amortizing. As a portfolio lender, the Bank presently does not offer a fixed-rate product. The Bank currently offers mostly 5/1 and 5/5 adjustable rate loans that adjust based on a spread ranging between 2.75% to 3.00% over the one or five-year FHLBNY rate. The maximum amount by which the interest rate may increase generally is limited to 2% for the first two adjustments and 5% for the life of the loan.

Multifamily and Nonresidential Loans. At $307.4 million, or 26.2% of the Bank's total loan portfolio at December 31, 2020, loans secured by multifamily properties represent the Bank's second largest lending concentration. The nonresidential portfolio accounts for $218.9 million, or 18.7% of the total loan portfolio, and represents the third largest concentration. Combined, the multifamily and nonresidential loan portfolios amount to $526.3 million, or 44.9% of the Bank's total loan portfolio at December 31, 2020. The three largest loans were $12.3 million, $10.9 million and $9.2 million, with the largest being a multifamily residential, and the other two being nonresidential. Of the total of $526.3 million in multifamily and nonresidential loans, 166 loans have balances in excess of $1.0 million and account for $376.5 million, or approximately 71.5%, of this lending concentration. In terms of geographical concentrations, $221.4 million, or 42.1%, are secured by properties located in Queens County, $113.8 million, or 21.6%, in Kings County, $79.0 million, or 15.0%, in Bronx County, $33.6 million, or 6.4%, in New York County, $20.0 million, or 3.8%, in Westchester County and $15.3 million, or 2.9%, in Nassau County. All other concentrations by county, which account for 8.2% of this category, have balances of $10.0 million or less. In the nonresidential portfolio, the overall mix is diverse in terms of property types, with the largest concentration being retail and wholesale at $76.2 million, or 34.8% of the portfolio, industrial and warehouse at $49.6 million, or 22.6%, service, doctor, dentist, daycare and schools at $25.6 million, or 11.7%, offices at $20.1 million, or 9.2%, hotels and motels at $15.4 million, or 7.0%, churches at $9.8 million, or 4.5%, medical, nursing home and hospital at $9.8 million, or 4.5%, and restaurants at $9.4 million, or 4.3%. The rest of the portfolio accounts for other property types, with none exceeding 1.0% as a portfolio concentration.

The Bank considers a number of factors when originating multifamily and nonresidential mortgages. Loans secured by multifamily and nonresidential real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential real estate loans. The primary concern in this type of lending is the borrower's creditworthiness and the viability and cash flow potential of the property. Payments on loans secured by income-producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be more subject to adverse conditions in the real estate market or the economy as compared to residential real estate loans. To address the risks involved, the Bank evaluates the qualifications and financial resources of the underlying principal(s) of the borrower, including credit history, profitability and expertise, as well as the value of cash flows and condition of the property securing the loan. When evaluating the qualifications of the borrower, the Bank considers the financial resources of the borrower, the experience of the underlying principal(s) of the borrower in owning or managing similar properties and the borrower's payment history with the Bank and other financial institutions. In evaluating the property securing the loan, the factors considered include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value or purchase price of the mortgaged property (whichever is lower), and the debt service coverage ratio. All multifamily and nonresidential loans are supported by appraisals that conform to the Bank's appraisal policy. The Bank generally limits the maximum LTVs on these loans to 75%, based on the lower of the purchase price or appraised value of the subject property (70% on the refinance of nonresidential properties such as retail spaces, office buildings, and warehouses) and a DSCR of 1.20%. Because of the COVID-19 pandemic, the Bank adopted temporary guidelines lowering LTVs by 5 percentiles and increasing DSCRs by 10 percentiles. The maximum loan term ranges between 25 and 30 years. As is the Bank's general policy, the Bank offers only adjustable rates on its multifamily and nonresidential mortgages ─ with adjustments based on a spread currently ranging between 2.75% to 3.00% over the five-year FHLBNY rate.

Construction and Land Loans. Construction and land loans totaled $105.9 million, or 9.0%, of the Bank's total loan portfolio at December 31, 2020, (27 projects), with $94.2 million consisting of multifamily residential (22 projects). In terms of geographical concentrations, $65.9 million, or 62.3%, are secured by properties located in Queens County, $33.0 million, or 31.1%, in Kings County, $5.5 million, or 5.2%, in New York County and $1.5 million, or 1.4%, in Bronx County. At December 31, 2020, loans in process related to construction loans totaled $101.1 million.

The Bank's typical construction loan has a term of up to 24 months and contains:

- a minimum of 5% contingency;
- a minimum of 5% retainage;
- a loan-to-cost ratio of 70% or less;
- an end loan loan-to-value ratio of 65% or less;
- an interest reserve;
- guarantees of all owners / partners / shareholders of a closely held organization owning 20% or more of company stock or entity ownership; and
- an option to convert to a permanent mortgage loan upon completion of the project.

Construction lending involves additional risks when compared with permanent lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. 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. The Bank's approach to the underwriting of construction loans is driven by five factors: analysis of the developer; analysis of the contractor; analysis of the project; valuation of the project; and evaluation of the source of repayment.

The developer's character, capacity and capital are analyzed to determine that the individual or entity has the ability to first complete the project and then either sell it or carry permanent financing. The general contractor is analyzed for reputation, sufficient expertise and capacity to complete the project within the allotted time. The project is analyzed in order to ensure that the project will be completed within a reasonable period of time according to the plans and specifications, and can either be sold, rented or refinanced once completed. All construction loans are supported by appraisals which conform to the Bank's appraisal policy and affirm the value of the project both "As Is" and "As Completed." Lastly, the Bank reviews the developer's cash flow estimations for the project on an "As Completed" basis. These projections are compared to the appraiser's estimates. Debt service coverage using projected rental net income must be at least 1.2x the estimated debt service when operating at stabilized levels.

Upon closing of the construction loan, the Bank begins monitoring the project and funding requisitions for completed stages upon inspection and confirmation by third party firms, such as engineers, of the work performed and its value and quality. Conversion to permanent financing usually occurs upon a conversion underwriting and receipt of certificates of occupancy, as applicable.

C&I Loans and Lines of Credit. C&I loans and lines of credit represent less than 1.0% of the Bank's total loan portfolio at December 31, 2020. Unlike real estate loans, which are secured by real property, and whose collateral value tends to be more easily ascertainable, commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. The collateral, such as accounts receivable, securing these loans may fluctuate in value.

Although the Bank's loan policy allows for the extension of secured and unsecured financing, the Bank usually seeks to obtain collateral when in initial discussions with potential borrowers. Unsecured credit facilities are made only to strong borrowers that possess established track records with the Bank (or come highly recommended) and are supported by guarantors. Guarantees are required of any individual or entity owning or controlling 20% or more of the borrowing entity, with exceptions requiring approval from the Board of Directors. When credits are not secured by a specific lien on an asset, the Bank usually requires a general lien on all business assets as evidenced by a UCC filing. Pricing is typically based on the Wall Street Journal prime rate plus a spread driven by risk-rating variables.

Underwriters are required to identify at least two sources of repayment, usually recommend that loans contain covenants, such as minimum debt service coverage ratios, minimum global debt service coverage ratios, maximum leverage ratios, 30-day "cleanups" or "clean-downs," as applicable, and must require periodic financial reporting. In addition, every effort is made to set up borrowers with auto-debit for loan payments and strongly encourage them to maintain operating accounts at the Bank.

Lines of credit are typically short-term facilities (12 months) that are provided for occasional or seasonal needs. They are extended to only qualifying borrowers who have established cash flow from operations and a clean credit history. At a minimum, a bi-annual 30-day clean-up, or 75% bi-annual pay-down period is required, although annually is preferred. A clean-up period generally is not required on amortizing secured lines. Guarantors, which are usually required, must have clean credit histories and a substantial outside net worth. Most lines contain an option to convert to a term loan upon maturity.

Secured term loans are long-term facilities extended typically for the purpose of financing the purchase of a long term asset. At a minimum, they will be collateralized by the asset being purchased. They may also be secured by an existing long term business asset or outside collateral pledged by the guarantor or borrower. Unsecured term loans are usually extended only to well-known borrowers who have established strong cash flow from operations and a clean credit history. Although Bank policy allows term loans for up to ten years, the preference is to offer self-amortizing term loans based on a term of no more than five-to-seven years.

Paycheck Protection Program. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") appropriated $349.0 billion for Paycheck Protection Program ("PPP"). On April 24, 2020, the PPP received another $310.0 billion in funding. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the "Economic Aid Act") appropriated another $284 billion for both first and second draw PPP loans bringing the total appropriations for PPP loans to $943.0 billion. PPP loans that meet U.S. Small Business Administration ("SBA") requirements may be forgiven in certain circumstances, are fully guaranteed by the SBA, have an initial term of up to five years and earn interest at rate of 1%. The Bank currently expects a significant portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Bank had disbursed 957 PPP loans totaling $85.3 million, or 7.3% of total loans. These loans resulted in $3.1 million in gross processing fee income to be recognized over the life of the respective loans.

Consumer Loans. Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include passbook loans and other secured and unsecured loans that have been made for a variety of consumer purposes. As of December 31, 2020, there were $25.8 million, or 2.2% of total loans, in unsecured consumer loans, of which $25.5 million comprised of 37,858 individual loans were originated and are serviced by the Bank pursuant to its arrangements with Grain. In addition, there were $737,000 in loans with passbook feature.

Loan Originations, Purchases and Sales. The following table sets forth the Bank's loan originations, sales, purchases and principal repayment activities, excluding mortgage loans held for sale, during the periods indicated.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
	(in thousands)				
Total loans at beginning of year	$ 966,096	$ 929,761	$ 808,754	$ 651,642	$ 576,611
Loans originated:					
Mortgage loans:					
1-4 family residential					
Investor-owned	36,522	32,827	38,738	85,333	57,167
Owner-occupied	15,090	9,117	6,430	15,278	14,741
Multifamily residential	90,481	53,288	66,674	51,451	51,876
Nonresidential properties	34,154	37,975	72,926	56,327	31,408
Construction and land	81,465	69,240	55,295	69,011	5,693
Total mortgage loans	257,712	202,447	240,063	277,400	160,885
Nonmortgage loans:					
Business (1)	89,110	1,175	5,101	17,873	1,222
Consumer (2)	25,999	755	697	597	718
Total nonmortgage loans	115,109	1,930	5,798	18,470	1,940
Total loans originated	372,821	204,377	245,861	295,870	162,825
Loans purchased:					
Mortgage loans:					
1-4 family residential	—	—	—	—	—
Investor-owned	—	—	—	—	—
Owner-occupied	—	—	—	—	—
Multifamily residential	—	—	—	—	—
Nonresidential properties	—	—	—	—	—
Construction and land	—	—	—	—	—
Total mortgage loans	—	—	—	—	—
Nonmortgage loans:					
Business	—	—	—	—	—
Consumer	—	—	—	—	—
Total nonmortgage loans	—	—	—	—	—
Total loans purchased	—	—	—	—	—
Loans sold:					
Mortgage loans:					
1-4 family residential					
Investor-owned	(781)	(3,520)	(1,759)	(139)	—
Owner-occupied	—	—	(2,502)	(819)	—
Multifamily residential	(2,748)	—	(535)	—	—
Nonresidential properties	(510)	(196)	(2,045)	(2,010)	—
Construction and land	—	—	—	—	—
Total mortgage loans	(4,039)	(3,716)	(6,841)	(2,968)	—
Nonmortgage loans:					
Business	—	—	—	—	—
Consumer	—	—	—	—	—
Total nonmortgage loans	—	—	—	—	—
Total loans sold	(4,039)	(3,716)	(6,841)	(2,968)	—
Principal repayments and other	(162,825)	(164,326)	(118,013)	(135,790)	(87,794)
Net loan activity	205,957	36,335	121,007	157,112	75,031
Total loans at end of year	$ 1,172,053	$ 966,096	$ 929,761	$ 808,754	$ 651,642

(1) Includes $85.3 million of PPP loans at December 31, 2020.
(2) Includes $25.5 million of loans originated under the Bank's arrangement with Grain at December 31, 2020.

Contractual Maturities. The following table sets forth the contractual maturities of the Bank's total loan portfolio, excluding mortgage loans held for sale, at December 31, 2020. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	December 31, 2020			
	One year or less	More than one year to five years	More than five years	Total
	(In thousands)			
Mortgage loans:				
1-4 family residential				
Investor-owned	$ 5,126	$ 11,756	$ 302,714	$ 319,596
Owner-occupied	825	3,342	94,628	98,795
Multifamily residential	882	16,083	290,446	307,411
Nonresidential properties	4,064	20,931	193,934	218,929
Construction and land	91,384	14,474	—	105,858
Total mortgage loans	102,281	66,586	881,722	1,050,589
Nonmortgage loans:				
Business loans (1)	5,056	87,891	2,000	94,947
Consumer loans (2)	25,553	964	—	26,517
Total nonmortgage loans	30,609	88,855	2,000	121,464
Total	$ 132,890	$ 155,441	$ 883,722	$ 1,172,053

(1) Includes $85.3 million of PPP loans at December 31, 2020.
(2) Includes $25.5 million of loans related to Grain at December 31, 2020.

The following table sets forth the Bank's fixed and adjustable-rate loans, excluding mortgage loans held for sale, at December 31, 2020 that are contractually due after December 31, 2021.

	Due After December 31, 2021		
	Fixed	Adjustable	Total
	(In thousands)		
Mortgage loans:			
1-4 family residential			
Investor-owned	$ 68,266	$ 246,204	$ 314,470
Owner-occupied	47,707	50,263	97,970
Multifamily residential	71,988	234,541	306,529
Nonresidential properties	38,062	176,803	214,865
Construction and land	—	14,474	14,474
Total mortgage loans	226,023	722,285	948,308
Nonmortgage loans:			
Business loans (1)	85,340	4,551	89,891
Consumer loans	—	964	964
Total nonmortgage loans	85,340	5,515	90,855
Total	$ 311,363	$ 727,800	$ 1,039,163

(1) Includes $85.3 million of PPP loans at December 31, 2020.

Loan Approval Procedures and Authority. The Bank's total loans or extensions of credit to a single borrower or group of related borrowers cannot exceed, with specified exemptions, 15% of its total regulatory capital. The Bank's lending limit as of December 31, 2020 was $23.5 million, with the ability to lend additional amounts up to 10% if the loans or extensions of credit are fully secured by readily-marketable collateral. At December 31, 2020, the Bank complied with these loans-to-one borrower limitations. At December 31, 2020, the Bank's largest aggregate exposure to one borrower was $20.5 million with an outstanding balance of $13.1 million. The second and third largest exposures were $15.8 million and $15.0 million with outstanding balances of $1.9 million and $6.0 million, respectively. No other loan or loans-to-one borrower, individually or cumulatively, exceeded $14.5 million, or 61.7% of the lending limit.

The Bank's lending is subject to written policies, underwriting standards and operating procedures. Decisions on loan requests are made on the basis of detailed applications submitted by the prospective borrower, credit histories that the Bank obtains and property valuations, consistent with the appraisal policy. The appraisals are prepared by outside independent licensed appraisers and reviewed by third parties, all approved by the Board of Directors. The Loan Committee usually reviews appraisals in considering a loan application. The performance of the appraisers is also subject to internal evaluations using scorecards and are assessed periodically. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and all information provided with the application and checklists provided as part of the application package are evaluated by the loan underwriting department.

The lending approval process starts with the processing of the application package, which is reviewed for completeness and then all necessary agency reports are ordered. Upon initial review and preparation of preliminary documents by the processors in the underwriting department, the file is assigned to an underwriter. The underwriters are responsible for presenting the loan request along with a recommendation, to the Loan Committee, and to the Board of Directors when the credit exposure is greater than the Loan Committee's authority or there are exceptions to the loan policy. If approved, closed and booked, the loan reviewers then undertake the responsibility of monitoring the credit file for the life of the loan by assessing the borrower's creditworthiness periodically, given certain criteria and following certain operating procedures. An independent third party also performs loan reviews following similar criteria and scope under the oversight of the Audit Committee of the Board of Directors.

At this time, the Bank does not originate loans with the intent of selling them into the secondary market.

Mortgage World loans held for sale, at fair value, include residential mortgages that were originated in accordance with secondary market pricing and underwriting standards. Mortgage World intends to sell these loans on the secondary market. As of December 31, 2020, approximately 4.7% of Mortgage World total originated loan volume was insured and approximately 83.0% of total originated loan volume was sold to three investors. Mortgage World is permitted to close loans in five states and has closed approximately 98.6% of its loan volume in New York and New Jersey.

Delinquencies and Non-Performing Assets

Delinquency Procedures. Collection efforts commence the day following the grace period, normally on the 17th of the month. Those loans that have experienced sporadic late payments over the previous 12 months are reviewed with a greater degree of diligence. Late notices are generated and distributed on the 17th and 30th day of the month. The Collection Department pursues collection efforts up until the 90th day past due. At that time, the Bank usually will initiate legal proceedings for collection or foreclosure unless it is in the best interest of the Bank to work further with the borrower to arrange a suitable workout plan.

Prior to acquiring property through foreclosure proceedings, the Bank will obtain an updated appraisal to determine the fair market value and proceed with net adjustments according to accounting principles. Board of Directors approval is required to pursue a foreclosure.

For the years ended December 31, 2020 and 2019, the Bank collected $100,000 and $162,000, respectively, of interest income on non-accruing troubled debt restructured loans, of which $7,000 and $24,000, respectively, was recognized into income. The remaining interest collected on non-accruing troubled debt restructured loans for these periods was applied as a principal reduction for the remaining life of the loan, or until the loan is deemed performing.

Delinquent Loans. The following table sets forth the Bank's loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

	At December 31,								
	2020			2019			2018		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(In thousands)								
Mortgages:									
1-4 Family residential									
Investor-owned	$ 2,222	$ 1,507	$ 1,907	$ 3,866	$ —	$ 1,082	$ 6,539	$ 470	$ —
Owner-occupied	1,572	348	1,100	3,405	—	1,295	1,609	574	995
Multifamily residential	1,140	—	946	3,921	—	—	995	—	—
Nonresidential properties	—	—	3,272	3	—	3,708	—	4	1,052
Construction and land	—	—	—	—	—	—	—	—	—
Nonmortgage Loans:									
Business	100	—	—	—	—	—	292	—	—
Consumer	497	316	175	—	—	—	—	—	—
Total	$ 5,531	$ 2,171	$ 7,400	$ 11,195	$ —	$ 6,085	$ 9,435	$ 1,048	$ 2,047

	At December 31,					
	2017			2016		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(In thousands)					
Mortgages:						
1-4 Family residential						
Investor-owned	$ 1,201	$ —	$ 472	$ 2,716	$ —	$ 325
Owner-occupied	585	—	3,391	2,562	557	1,734
Multifamily residential	46	—	—	819	—	—
Nonresidential properties	11	—	1,882	41	—	1,994
Construction and land	—	—	—	—	—	—
Nonmortgage Loans:						
Business	239	—	51	25	—	22
Consumer	—	—	—	—	—	—
Total	$ 2,082	$ —	$ 5,796	$ 6,163	$ 557	$ 4,075

Multifamily residential loans 30-59 days past due decreased $2.8 million, or 70.9%, to $1.1 million at December 31, 2020 compared to $3.9 million at December 31, 2019. The decrease was mainly attributed to decreases of three relationships consisting of three loans totaling $3.1 million offset by increases of two relationships consisting of two loans totaling $1.1 million.

Owner-occupied, one-to-four family residential loans 30-59 days past due decreased $1.8 million, or 53.8%, to $1.6 million at December 31, 2020 compared to $3.4 million at December 31, 2019. The decrease was mainly attributed to decreases of nine relationships consisting of nine loans totaling $3.1 million offset by increases of five relationships consisting of five loans totaling $1.3 million.

Investor-owned, one-to-four family residential loans 30-59 days past due decreased $1.6 million, or 42.5%, to $2.2 million at December 31, 2020 compared to $3.9 million at December 31, 2019. The decrease was mainly attributed to decreases of six relationships consisting of six loans totaling $3.5 million offset by increases of three relationships consisting of three loans totaling $1.9 million.

Investor-owned, one-to-four family residential loans past due 60-89 days increased $1.5 million, or 100.00%, to $1.5 million at December 31, 2020 compared to no loans at December 31, 2019. The increase was mainly attributed to two relationships consisting of two loans totaling $1.5 million.

Investor-owned, one-to-four family residential loans past due 90 days or more increased $825,000, or 76.25%, to $1.9 million at December 31, 2020 compared to $1.1 million at December 31, 2019. The increase was mainly attributed to two relationships consisting of two loans totaling $825,000.

Nonresidential properties loans past due 90 days or more decreased $436,000, or 11.8%, to $3.3 million at December 31, 2020 compared to $3.7 million at December 31, 2019. The decrease was mainly attributed to decreases of three relationships consisting of three loans totaling $3.7 million offset by increases of two relationships consisting of two loans totaling $3.3 million.

Consumer loans included past due Grain loans of $497,000 30-59 days past due, $316,000 60-89 days past due and $175,000 90 days or more past due.

Non-Performing Assets. The following table sets forth information regarding non-performing assets excluding mortgage loans held for sale at fair value. Non-performing assets are comprised of non-accrual loans, non-accrual troubled debt restructured loans, and other real estate owned. Non-accrual loans include non-accruing troubled debt restructured loans of $3.1 million, $3.6 million, $3.6 million, $4.6 million, and $2.7 million at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

	At December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Nonaccrual loans:					
Mortgage loans:					
1-4 family residential					
Investor-owned	$ 2,808	$ 2,312	$ 205	$ 1,034	$ 809
Owner-occupied	1,053	1,009	1,092	2,624	1,463
Multifamily residential	946	—	16	521	—
Nonresidential properties	3,776	3,555	706	1,387	1,614
Construction and land	—	1,118	1,115	1,075	1,145
Nonmortgage loans:					
Business	—	—	—	147	22
Consumer	—	—	—	—	—
Total nonaccrual loans (not including non-accruing troubled debt restructured loans)	$ 8,583	$ 7,994	$ 3,134	$ 6,788	$ 5,053
Non-accruing troubled debt restructured loans:					
Mortgage loans:					
1-4 family residential					
Investor-owned	$ 249	$ 467	$ 1,053	$ 1,144	$ 1,240
Owner-occupied	2,197	2,491	1,987	2,693	646
Multifamily residential	—	—	—	—	—
Nonresidential properties	654	646	604	783	783
Construction and land	—	—	—	—	—
Nonmortgage loans:					
Business	—	—	—	—	—
Consumer	—	—	—	—	—
Total non-accruing troubled debt restructured loans	3,100	3,604	3,644	4,620	2,669
Total nonaccrual loans	$ 11,683	$ 11,598	$ 6,778	$ 11,408	$ 7,722
Total nonperforming assets	$ 11,683	$ 11,598	$ 6,778	$ 11,408	$ 7,722
Accruing loans past due 90 days or more:					
Mortgage loans:					
1-4 family residential					
Investor-owned	$ —	$ —	$ —	$ 7	$ —
Owner-occupied	—	—	—	—	—
Multifamily residential	—	—	—	—	—
Nonresidential properties	—	—	—	—	—
Construction and land	—	—	—	—	—
Nonmortgage loans:					
Business	—	—	—	—	—
Consumer	—	—	—	—	—
Total accruing loans past due 90 days or more	$ —	$ —	$ —	$ 7	$ —
Accruing troubled debt restructured loans:					
Mortgage loans:					
1-4 family residential					
Investor-owned	$ 3,378	$ 5,191	$ 5,192	$ 6,559	$ 6,422
Owner-occupied	2,505	2,090	3,456	4,756	7,271
Multifamily residential	—	—	—	—	—
Nonresidential properties	754	1,306	1,438	1,958	4,066
Construction and land	—	—	—	—	—
Nonmortgage loans:					
Business	—	14	374	477	593
Consumer	—	—	—	—	—
Total accruing troubled debt restructured loans	$ 6,637	$ 8,601	$ 10,460	$ 13,750	$ 18,352
Total nonperforming assets, accruing loans past due 90 days or more and accruing troubled debt restructured loans	$ 18,320	$ 20,199	$ 17,238	$ 25,165	$ 26,074
Total nonperforming loans to total gross loans	1.00%	1.20%	0.73%	1.41%	1.20%
Total nonperforming assets to total assets	0.86%	1.10%	0.64%	1.23%	1.04%
Total nonperforming assets, accruing loans past due 90 days or more and accruing troubled debt restructured loans to total assets	1.35%	1.92%	1.63%	2.72%	3.50%

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities, considered by the Office of the Comptroller of the Currency ("OCC") to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the Bank will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as "special mention" by our management.

Under OCC regulations, when an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

In connection with the filing of the Bank's periodic reports with the OCC and in accordance with its classification of assets policy, it regularly reviews the loans in its portfolio to determine whether any loans require classification in accordance with applicable regulations.

On the basis of this review of loans, the Bank's classified and special mention loans at the dates indicated were as follows:

	At December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Classified Loans:					
Substandard	$ 20,508	$ 22,787	$ 18,665	$ 22,999	$ 19,225
Total classified loans	20,508	22,787	18,665	22,999	19,225
Special mention loans	19,546	17,355	14,394	5,317	2,549
Total classified and special mention loans	$ 40,054	$ 40,142	$ 33,059	$ 28,316	$ 21,774

Substandard loans decreased $2.3 million, or 10.0%, to $20.5 million at December 31, 2020 compared to $22.8 million at December 31, 2019. The decrease of substandard loans was primarily attributable to decreases of $8.4 million in construction and land loans and $379,000 in 1-4 family owner occupied loan, offset by increases of $5.2 million in multifamily loans, $663,000 in 1-4 family investor owned loan and $582,000 in nonresidential loans.

Special mention loans increased $2.2 million, or 12.6%, to $19.5 million at December 31, 2020 compared to $17.4 million at December 31, 2019. The increase was primarily attributable to two construction multi-family loans which increased in the aggregate by $2.3 million, or 15.2%, to $17.2 million offset by a decrease of $79,000, or 13.3%, in 1-4 family investor owned loans.

Troubled Debt Restructured Loans. The Bank occasionally modifies loans to help borrowers stay current on their loans and to avoid foreclosure. The Bank considers modifications only after analyzing a borrower's current repayment capacity, evaluating the strength of any guarantors based on documented current financial information, and assessing the current value of any collateral pledged. The Bank generally does not forgive principal or interest on loans, but may do so if it is in its best interest and increases the likelihood that it can collect the remaining principal balance. The Bank may modify the terms of loans to lower interest rates, which may be at below market rates, to provide for fixed interest rates on loans where fixed rates are otherwise not available, or to provide for interest-only terms. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and is in the Bank's best interests.

At December 31, 2020, there were 32 loans modified as troubled debt restructured loans totaling $9.7 million. Of these, 7 troubled debt restructured loans, totaling $3.1 million, were included in non-accrual loans and the remaining 25 troubled debt restructured loans, totaling $6.6 million, had been performing in accordance with their modified terms for a minimum of six months since the date of restructuring.

At December 31, 2019, there were 36 loans modified as troubled debt restructured loans totaling $12.2 million. Of these, 10 troubled debt restructured loans totaling $3.6 million were included in non-accrual loans and the remaining 26 troubled debt restructured loans, totaling $8.6 million, had been performing in accordance with their modified terms for a minimum of six months since the date of restructuring.

For the year ended December 31, 2020, there were no loans modified to troubled debt restructured and for the year ended December 31, 2019, there was one troubled debt restructured loan amounting to $275,000.

Allowance for Loan and Lease Losses

The Bank has approved and maintained an appropriate, systematic and consistently applied process to determine the dollar amounts of the allowance for loan and lease losses ("ALLL") that is adequate to absorb inherent losses in the loan portfolio and other held financial instruments. An inherent loss, as defined by U.S. Generally Accepted Accounting Principles ("GAAP"), and applicable banking regulations, is an unconfirmed loss that probably exists based on the information that is available as of the evaluation date. It is not a loss that may arise from events that might occur as a result of a possible future event. Arriving at an appropriate allowance involves a high degree of management's judgment, is inevitably imprecise, and results in a range of possible losses.

The determination of the dollar amounts of the ALLL is based on management's current judgments about the credit quality of the loan portfolio taking into consideration all known relevant internal and external factors that affect loan payments at the end of each month. The dollar amounts reported each month for the ALLL are reviewed at least quarterly by the Board of Directors. To ensure that the methodology remains appropriate for the Bank, the Board of Directors periodically has the methodology validated externally and causes revisions to be made when appropriate. The Audit Committee of the Board of Directors oversees and monitors the internal controls over the ALLL determination process. The Bank adheres to a safe and sound banking practice by maintaining, analyzing, and supporting an adequate ALLL in accordance with GAAP and supervisory guidance.

The Bank's ALLL methodology consists of a system designed and implemented to estimate loan and lease losses. The Bank's ALLL methodology incorporates management's current judgments about the credit quality of the loan and lease portfolio through a disciplined and consistently applied process.

The Bank's loan policy requires the following when the Bank calculates the level of ALLL:

- All loans shall be taken into consideration in the ALLL methodology whether on an individual or group basis.
- The Bank shall identify all loans to be evaluated for impairment on an individual basis under ASC 310 and segment the remainder of the loan portfolio into groups (pools) of loans with similar risk characteristics for evaluation and analysis under ASC 450.
- All known relevant internal and external factors that may affect the collection of the loan shall be taken into consideration.
- All known relevant internal and external factors that may affect loan collectability shall be considered and applied consistently; however, when appropriate, these factors may be modified for new factors affecting loan collectability.
- The particular risks inherent in different kinds of lending shall be taken into consideration.
- The current collateral values, less the costs to sell, shall be taken into consideration when applicable.
- The Bank shall require that competent and well-trained personnel perform the analysis, estimates, reviews and other ALLL methodology functions.
- The ALLL methodology shall be based on current and reliable information.
- The ALLL methodology shall be well documented, in writing, with clear explanations of the supporting analyses and rationale.
- The ALLL methodology shall include a systematic and logical method to consolidate the loss estimates and ensure the ALLL balance is recorded in accordance with GAAP.

Loan pools with similar risk characteristics. Loss histories are the starting point for the calculation of ALLL balances. Loss histories are calculated for each of the pools by aggregating the historical losses less recoveries within the respective pools and annualizing the number over the determined length of time. The length of time may vary according to the relevance of past periods' experience to the current period, among other considerations. The Bank currently uses a prior twelve quarter rolling average for its historical loss rates.

Each pool's historical loss rate is adjusted for the effects of the qualitative or environmental factors. The factors analyzed include:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices.
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Changes in the nature and volume of the portfolio and in the terms of loans.
- Changes in the experience, ability and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.
- Changes in the quality of the Bank's loan review system.
- Changes in the value of underlying collateral for collateral-dependent loans.
- The existence and effect of any concentration of credit, and changes in the level of such concentrations.
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Bank's existing portfolio.

The Bank utilizes a risk-based approach to determine the appropriate adjustments for each qualitative factor. A matrix containing definitions of low, medium, and high risk levels is used to assess the individual factors to determine their respective directional characteristics. These risk levels serve as the foundation for determining the individual adjustments for each factor for each pool of loans.

The qualitative factor adjustments are supported by applicable reports, graphs, articles and any other relevant information to evidence and document management's judgment as to the respective levels of risk and adjustment requirements.

Each of the qualitative adjustment factors is applied to each of the loan pools to reflect adjustments that increase or decrease the historical loss rates applied to each loan pool. Each of these adjustment factors is individually supported and justified, and a discrete narrative for each loan pool reflects current information, events, circumstances and conditions influencing the adjustment. The narratives include descriptions of each factor, management's analysis of how each factor has changed over time, which loan pool's loss rates have been adjusted, the amount by which loss estimates have been adjusted for changes in conditions, an explanation of how management estimated the impact, and other available data that support the reasonableness of the adjustments.

Once these qualitative adjustment factors are determined for each pool of loans, they are added to the historical loss numbers for each corresponding pool of loans to arrive at a loss factor for each pool based on historical loss experience and qualitative or environmental influences. These loss factors are adjusted to appropriately reflect the respective risk rating categories within each pool by applying the weighting factors described above to those loans within the respective pool's risk rates.

The series of calculations described above can be expressed as the following equation:

$[(H*P) + (Q*P)] = R$, where

H = Historical loss factor for the pool

Q = Qualitative/Environmental aggregate adjustment for the pool

P = Total loans within the pool

R = Required reserve amount for the risk rating category within the pool

Specific allowances for identified problem loans. The Bank considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All troubled debt restructured loans and loans on non-accrual status are deemed to be impaired. A specific valuation allowance is established for the impairment amount of each loan, calculated using the present value of expected cash flows, observable market price, or the fair value of the collateral, in accordance with the most likely means of recovery.

Factors evaluated in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Bank determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

An unallocated component may be maintained to cover uncertainties that could affect our estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Validation of the ALLL. The Bank considers its ALLL methodology valid when it accurately estimates the amount of probable loss contained in the loan portfolio. The Bank has employed procedures, including the following, when validating the reasonableness of its ALLL methodology and determining whether there may be deficiencies in its overall methodology or loan grading process:

- A review of trends in loan volume, delinquencies, loan restructurings and concentrations.
- A review of previous charge-offs and recovery history, including an evaluation of the timeliness of the entries to record both the charge-offs and the recoveries.
- At a minimum, an annual review by a third party that is independent of the ALLL estimation process.
- An evaluation of the appraisal process of the underlying collateral.

The Bank supports the independent validation process with the work papers from the ALLL review function and may include the summary findings of an independent reviewer. The Board reviews the findings and acknowledges its review in the minutes of its meeting. If the methodology is changed based upon the findings of the validation process, the documentation that describes and supports the changes is maintained.

As an integral part of its examination process, the OCC will periodically review the Bank's allowance for loan losses. Following such review, the Bank may determine that it is appropriate to recognize additions to the allowance based on its judgment and information available to it at the time of such examination.

Current expected credit losses. On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, the current expected credit losses ("CECL") standard. In October 2019, the FASB voted to defer implementation of the standard for non-public business entities and smaller reporting companies, such as the Company, to fiscal years beginning after December 15, 2022. In response to the new model, the Bank has reassessed its risk management policies and procedures in order for it to successfully implement CECL. Once adopted, the Bank will have to estimate the allowance for loan losses on expected losses rather than incurred losses.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Allowance at beginning of year	$ 12,329	$ 12,659	$ 11,071	$ 10,205	$ 9,484
Provision (recovery) for loan losses	2,443	258	1,249	1,716	(57)
Charge-offs:					
Mortgage loans:					
1-4 family residential					
Investor-owned	—	(8)	—	—	(38)
Owner-occupied	—	—	—	—	—
Multifamily residential	—	—	—	—	(3)
Nonresidential properties	—	—	—	—	—
Construction and land	—	—	—	—	(85)
Nonmortgage loans:					
Business	—	(724)	(34)	(1,423)	—
Consumer	(6)	—	(14)	(6)	(13)
Total charge-offs	(6)	(732)	(48)	(1,429)	(139)
Recoveries:					
Mortgage loans:					
1-4 family residential					
Investor-owned	—	23	1	25	18
Owner-occupied	—	—	250	176	142
Multifamily residential	—	—	—	2	1
Nonresidential properties	4	9	9	9	9
Construction and land	—	—	—	2	5
Nonmortgage loans:					
Business	95	110	122	359	733
Consumer	5	2	5	6	9
Total recoveries	104	144	387	579	917
Net recoveries (charge-offs)	98	(588)	339	(850)	778
Allowance at end of year	$ 14,870	$ 12,329	$ 12,659	$ 11,071	$ 10,205
Allowance for loan losses as a percentage for nonperforming loans	127.28%	106.30%	186.77%	97.05%	132.15%
Allowance for loan losses as a percentage of total loans	1.27%	1.28%	1.36%	1.37%	1.57%
Net recoveries (charge-offs) to average loans outstanding during the year	0.01%	(0.06%)	0.04%	(0.12%)	0.13%

Allowance for Loan and Lease Losses. The following table sets forth the allowance for loan and lease losses by loan category and the percent of the allowance in each category to the total allowance at the dates indicated. The allowance for loan and lease losses of each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,								
	2020			2019			2018		
	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)								
Mortgage loans:									
1-4 family residential									
Investor-owned	$ 3,850	25.90%	27.27%	$ 3,503	28.42%	31.60%	$ 3,799	30.01%	32.61%
Owner-occupied	1,260	8.47%	8.43%	1,067	8.65%	9.52%	1,208	9.55%	9.98%
Multifamily residential	5,214	35.06%	26.23%	3,865	31.35%	25.90%	3,829	30.25%	25.01%
Nonresidential properties	2,194	14.75%	18.68%	1,849	15.00%	21.45%	1,925	15.20%	21.18%
Construction and land	1,820	12.24%	9.03%	1,782	14.45%	10.28%	1,631	12.88%	9.42%
Total mortgage loans	14,338	96.42%	89.64%	12,066	97.87%	98.75%	12,392	97.89%	98.20%
Nonmortgage loans:									
Business	254	1.71%	8.10%	254	2.06%	1.13%	260	2.05%	1.69%
Consumer	278	1.87%	2.26%	9	0.07%	0.12%	7	0.06%	0.11%
Total nonmortgage loans	532	3.58%	10.36%	263	2.13%	1.25%	267	2.11%	1.80%
Total	$ 14,870	100.00%	100.00%	$ 12,329	100.00%	100.00%	$ 12,659	100.00%	100.00%

	At December 31,					
	2017			2016		
	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Mortgage loans:						
1-4 family residential						
Investor-owned	$ 3,716	33.57%	35.51%	$ 3,146	30.83%	34.90%
Owner-occupied	1,402	12.66%	12.47%	1,805	17.69%	14.98%
Multifamily residential	3,109	28.08%	23.31%	2,705	26.51%	24.28%
Nonresidential properties	1,424	12.86%	18.70%	1,320	12.92%	18.64%
Construction and land	1,205	10.89%	8.31%	615	6.03%	4.66%
Total mortgage loans	10,856	98.06%	98.30%	9,591	93.98%	97.46%
Nonmortgage loans:						
Business	209	1.89%	1.59%	597	5.85%	2.41%
Consumer	6	0.05%	0.11%	17	0.17%	0.13%
Total nonmortgage loans	215	1.94%	1.70%	614	6.02%	2.54%
Total	$ 11,071	100.00%	100.00%	$ 10,205	100.00%	100.00%

At December 31, 2020, the allowance for loan and lease losses represented 1.27% of total gross loans and 127.28% of nonperforming loans compared to 1.28% of total loans and 106.30% of nonperforming loans at December 31, 2019. The allowance for loan and lease losses increased to $14.9 million at December 31, 2020 from $12.3 million at December 31, 2019. There were $98,000 in net recoveries and $588,000 in net charge-offs during the years ended December 31, 2020 and 2019, respectively.

Although the Bank believes that it uses the best information available to establish the ALLL, future adjustments to the allowance may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations, as occurred in 2020 due to the COVID-19 pandemic. Furthermore, although the Bank believes that it has established the ALLL in conformity with GAAP, after a review of the loan portfolio by regulators, the Bank may determine it is appropriate to increase the ALLL. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing ALLL may not be adequate and increases may be necessary should the quality of any loan or lease deteriorate as a result of the factors discussed above. Any material increase in the ALLL may adversely affect the Bank's financial condition and results of operations.

Investment Activities

General. The Bank's investment policy was adopted and is reviewed annually by the Board of Directors. The Chief Financial Officer (designated as the Chief Investment Officer) will plan and execute investment strategies consistent with the policies approved by the Board of Directors. The Chief Financial Officer provides an investment schedule detailing the investment portfolio which is reviewed at least quarterly by the Bank's asset-liability committee and the Board of Directors.

The current investment policy permits, with certain limitations, investments in United States Treasury securities; securities issued by the U.S. government and its agencies or government-sponsored enterprises including mortgage-backed and collateralized mortgage obligations ("CMO") issued by Fannie Mae, Ginnie Mae and Freddie Mac; and corporate bonds and obligations, and certificates of deposit in other financial institutions.

At December 31, 2020 and 2019, the investment portfolio consisted of available-for-sale and held-to-maturity securities and obligations issued by the U.S. government and government-sponsored enterprises, corporate bonds and the FHLBNY stock. At December 31, 2020 and 2019, the Bank owned $6.4 million and $5.7 million, respectively, of FHLBNY stock. As a member of FHLBNY, the Bank is required to purchase stock from the FHLBNY which is carried at cost and classified as restricted equity securities.

Securities Portfolio Composition. The following table sets forth the amortized cost and estimated fair value of the available-for-sale and held-to-maturity securities portfolios at the dates indicated, which consisted of U.S. government and federal agencies, corporate bonds, pass-through mortgage-backed securities and certificates of deposit.

	At December 31,									
	2020		2019		2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)									
Available-for-Sale Securities:										
U.S. Government and Federal Agencies	$ —	$ —	$ 16,373	$ 16,354	$ 20,924	$ 20,515	$ 24,911	$ 24,552	$ 41,906	$ 41,559
US Treasury	—	—	—	—	4,997	4,995	—	—	—	—
Corporate Bonds	10,381	10,463	—	—	—	—	—	—	—	—
Certificates of Deposit	—	—	—	—	—	—	—	—	500	500
Mortgage-Backed Securities										
FHLMC Certificates	3,201	3,196	—	—	—	—	—	—	192	216
FNMA Certificates	3,506	3,567	4,680	4,659	778	759	1,118	1,103	3,600	3,606
GNMA Certificates	263	272	482	491	870	875	3,205	3,242	6,744	6,809
Total available-for-sale securities	$ 17,351	$ 17,498	$ 21,535	$ 21,504	$ 27,569	$ 27,144	$ 29,234	$ 28,897	$ 52,942	$ 52,690
Held-to-Maturity Securities:										
FHLMC Certificates	$ 1,743	$ 1,722	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total held-to-maturity securities	$ 1,743	$ 1,722	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

At December 31, 2020 and 2019, there were no securities of which the amortized cost or estimated value exceeded 10% of total equity**.**

Mortgage-Backed Securities. At December 31, 2020 and 2019, the Bank had mortgage-backed securities with a carrying value of $8.7 million and $5.2 million, respectively. Mortgage-backed securities are securities issued in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as “pass through” certificates because the underlying loans are “passed through” to investors, net of certain costs, including servicing and guarantee fees. Mortgage-backed securities typically are collateralized by pools of one-to-four family residential or multifamily residential mortgages, although the Bank invests primarily in mortgage-backed securities backed by one-to-four family residential mortgages. The issuers of such securities sell the participation interests to investors such as the Bank. The interest rate of the security is lower than the interest rates of the underlying loans to allow for payment of servicing and guaranty fees. All of the Bank’s mortgage-backed securities are backed by Freddie Mac and Fannie Mae, which are government-sponsored enterprises, or Ginnie Mae, which is a government-owned enterprise.

Residential mortgage-backed securities issued by U.S. government agencies and government-sponsored enterprises are more liquid than individual mortgage loans because there is an active trading market for such securities. In addition, residential mortgage-backed securities may be used to collateralize borrowings. Investments in residential mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on the securities. Current prepayment speeds determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2020 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Available-for-Sale Securities:											
U.S. Government and Federal Agencies	$ —	—	$ —	—	$ —	—	$ —	—	$ —	$ —	—
US Treasury	—	—	—	—	—	—	—	—	—	—	—
Corporate Bonds	—	—	2,651	1.66%	7,730	5.02%	—	—	10,381	10,463	4.16%
Mortgage-Backed Securities											
FHLMC Certificates	—	—	—	—			3,201	0.75%	3,201	3,196	0.75%
FNMA Certificates	—	—	300	1.79%	—	—	3,206	1.44%	3,506	3,567	1.47%
GNMA Certificates	—	—	—	—	—	—	263	1.66%	263	272	1.66%
Total available-for-sale securities	$ —	—	$ 2,951	1.67%	$ 7,730	5.02%	$ 6,670	1.12%	$ 17,351	$ 17,498	2.95%
Held-to-Maturity Securities:											
FHLMC Certificates	$ —	—	$ —	—	$ —	—	$ 1,743	1.98%	1,743	$ 1,722	1.98%
Total held-to-maturity securities	$ —	—	$ —	—	$ —	—	$ 1,743	1.98%	$ 1,743	$ 1,722	1.98%

Sources of Funds

General. Deposits have traditionally been the Bank’s primary source of funds for use in lending and investment activities. The Bank also uses borrowings, primarily from the FHLBNY, brokered and listing service deposits, and unsecured lines of credit with correspondent banks, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk and manage the cost of funds. At December 31, 2020, the Bank borrowed $117.3 million from FHLBNY. In addition, the Bank receives funds from scheduled loan payments, investment principal and interest payments, maturities and calls, loan prepayments and income on earning assets. Although scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Deposits are generated primarily from the Bank’s primary market area. The Bank offers a selection of deposit accounts, including demand accounts, NOW/IOLA accounts, money market accounts, reciprocal deposits, savings accounts and certificates of deposit to individuals, business entities, non-profit organizations and individual retirement accounts. Deposit account terms vary, with the primary differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and premature withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. The Bank relies upon personalized customer service, long-standing relationships with customers and the favorable image of the Bank in the community to attract and retain deposits. The Bank also provides a fully functional electronic banking platform, including mobile applications, remote deposit capture and online bill pay, among others, as a service to retail and business customers.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. In connection with the Bank's PPP lending, as of December 31, 2020, the Bank had $43.5 million of PPP related deposits. The ability to attract and maintain these and other interest-bearing deposits, and the rates paid on them, have been, and will continue to be, significantly affected by competition and economic and market conditions.

The following table sets forth the average balance and weighted average rate of deposits for the periods indicated.

	For the Years Ended December 31,								
	2020			2019			2018		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
NOW/IOLA	$ 29,792	3.31%	0.51%	$ 27,539	3.51%	0.44%	$ 28,182	3.74%	0.36%
Money market	207,454	23.05%	0.90%	124,729	15.88%	2.04%	60,113	7.97%	1.17%
Savings	118,956	13.22%	0.12%	119,521	15.22%	0.13%	125,395	16.63%	0.61%
Certificates of deposit	379,276	42.14%	1.73%	403,010	51.30%	1.90%	439,737	58.32%	1.73%
Interest-bearing deposits	735,478	81.72%	1.19%	674,799	85.90%	1.56%	653,427	86.66%	1.31%
Non-interest bearing demand	164,555	18.28%	—%	110,745	14.10%	—%	100,628	13.34%	—%
Total deposits	$ 900,033	100.00%	0.97%	$ 785,544	100.00%	1.34%	$ 754,055	100.00%	1.14%

The following table sets forth deposit activities for the periods indicated.

	At or For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Beginning balance	$ 782,043	$ 809,758	$ 713,985
Net deposits (withdrawals) before interest credited	238,786	(38,219)	87,185
Interest credited	8,750	10,504	8,588
Net increase (decrease) in deposits	247,536	(27,715)	95,773
Ending balance	$ 1,029,579	$ 782,043	$ 809,758

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Interest Rate:			
0.05% - 0.99%	$ 150,152	$ 8,452	$ 11,749
1.00% - 1.49%	85,958	62,492	84,484
1.50% - 1.99%	45,405	94,020	103,423
2.00% - 2.49%	103,301	172,596	187,453
2.50% - 2.99%	18,123	44,961	31,338
3.00% and greater	4,048	6,977	5,639
Total	$ 406,987	$ 389,498	$ 424,086

The following table sets forth the amount and maturities of certificates of deposit by interest rate at December 31, 2020.

	Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years	Total	Percent of Total
	(Dollars in thousands)					
Interest Rate Range:						
0.05% - 0.99%	$ 127,497	$ 11,207	$ 910	$ 10,538	$ 150,152	36.89%
1.00% - 1.49%	44,379	22,389	14,955	4,235	85,958	21.13%
1.50% - 1.99%	27,592	8,259	3,066	6,488	45,405	11.16%
2.00% - 2.49%	62,499	33,939	3,156	3,707	103,301	25.38%
2.50% - 2.99%	12,296	1,268	1,096	3,463	18,123	4.45%
3.00% and greater	1,947	—	940	1,161	4,048	0.99%
Total	$ 276,210	$ 77,062	$ 24,123	$ 29,592	$ 406,987	100.00%

At December 31, 2020, the aggregate amount of all certificates of deposit in amounts greater than or equal to $100,000 was $202.2 million. The following table sets forth the maturity of those certificates as of December 31, 2020.

Maturity Period:	At December 31, (Dollars in thousands)
Three months or less	$ 39,743
Over three months through six months	30,143
Over six months through one year	55,499
Over one year to three years	65,206
Over three years	11,560
Total	$ 202,151

At December 31, 2020, certificates of deposit equal to or greater than $250,000 totaled $105.4 million of which $63.3 million matures on or before December 31, 2021. At December 31, 2020, passbook savings accounts and certificates of deposit with a passbook feature totaled $163.0 million, reflecting depositors' preference for traditional banking services.

Borrowings. The Bank may obtain advances from the FHLBNY by pledging as security its capital stock at the FHLBNY and certain of its mortgage loans and mortgage-backed securities. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. To the extent such borrowings have different terms to repricing than the Bank's deposits, they can change the Bank's interest rate risk profile. At December 31, 2020 and 2019 the Bank had $117.3 million and $104.4 million of outstanding FHLBNY advances, respectively. Additionally, the Bank has an unsecured line of credit in the amount of $25.0 million with a correspondent bank, of which none was outstanding at December 31, 2020 and 2019. The Bank also had a guarantee from the FHLBNY through letters of credit in an amount of up to $61.5 million and $3.5 million at December 31, 2020 and 2019, respectively.

Warehouse Line of Credit. Mortgage World maintains two warehouse lines of credit with financial institutions for the purpose of funding the origination and sale of residential mortgages. The lines of credit are repaid with proceeds from the sale of the mortgage loans. The lines are secured by the assets collaterizing underlying mortgages originated by Mortgage World. The agreements with the warehouse lenders provide for certain restrictive covenants such as minimum net worth and liquidity ratios. All warehouse facilities are guaranteed by Mortgage World. As of December 31, 2020, Mortgage World was in full compliance with all financial covenants. At December 31, 2020, Mortgage World utilized $30.0 million for funding of loans held for sale and had unused line of credit of $4.9 million.

The following table sets forth information concerning balances and interest rates on borrowings at the dates and for the periods indicated.

	At or For the Years December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
FHLBNY Advances:			
Balance outstanding at end of period	$ 117,255	$ 104,404	$ 44,404
Average amount outstanding during the period	116,947	81,404	32,157
Maximum outstanding at any month-end during the period	152,284	169,404	44,404
Weighted average interest rate during the period	2.03%	2.32%	1.87%
Weighted average interest rate at the end of the period	1.90%	2.21%	2.72%
Correspondent Borrowings:			
Balance outstanding at end of period	$ —	$ —	$ 25,000
Average amount outstanding during the period	—	—	2,729
Maximum outstanding at any month-end during the period	—	—	25,000
Weighted average interest rate during the period	—	—	2.26%
Weighted average interest rate at the end of the period	—	—	2.64%
Warehouse Lines of Credit:			
Balance outstanding at end of period	$ 29,961	$ —	$ —
Average amount outstanding during the period	8,461	—	—
Maximum outstanding at any month-end during the period	29,961	—	—
Weighted average interest rate during the period	3.34%	—	—
Weighted average interest rate at the end of the period	3.37%	—	—

Personnel

At December 31, 2020, the Bank and Mortgage World had a total of 227 full-time equivalent employees of which 46 full-time equivalent employees related to the acquisition of Mortgage World. At December 31, 2019 the Bank had 183 full-time equivalent employees. Employees are not represented by any collective bargaining group.

Subsidiaries

The Company has two subsidiaries, Ponce Bank and Mortgage World. Ponce Bank has two subsidiaries, Ponce de Leon Mortgage Corp., a New York State chartered mortgage brokerage entity, whose employees are registered in New York and New Jersey, and PFS Services, Corp., which as of December 31, 2020 owned two of the Bank's properties, one of such properties located at 3821 Bergenline Avenue, Union City, New Jersey was sold in February 2021. See Note 20, "Subsequent Events" of the Notes to the accompanying Consolidated Financial Statement for additional information.

Regulation and Supervision

General

As a federally-chartered, stock savings association, the Bank is subject to examination, supervision and regulation, primarily by the OCC, and, secondarily, by the Federal Deposit Insurance Corporation ("FDIC") as the insurer of deposits. The federal system of regulation and supervision establishes a comprehensive framework of activities in which the Bank is engaging and is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund.

The Bank is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, or the "Federal Reserve Board," which governs the reserves to be maintained against deposits and other matters. In addition, the Bank is a member of and owns stock in the FHLBNY, which is one of the 11 regional banks in the Federal Home Loan Bank System. The Bank's relationship with its depositors and borrowers is also regulated, to a great extent, by federal law and, to a lesser extent, state law, including in matters concerning the ownership of deposit accounts and the form and content of loan documents.

As savings and loan holding companies, the Company and Ponce Bank Mutual Holding Company, are subject to examination and supervision by, and are required to file certain reports with, the Federal Reserve Board. The Company is subject to the rules and regulations of the SEC under the federal securities laws.

Mortgage World is a mortgage banking entity primarily operating in the New York City metropolitan area. It is a Federal Housing Administration ("FHA") approved Title II lender, giving Mortgage World the ability to process or service single family loans that will be guaranteed by the FHA. To maintain its license, Mortgage World must comply with certain regulations set forth by the U.S. Department of Housing and Urban Development ("HUD"). In addition, Mortgage World is subject to the comprehensive regulation and examination of the New York State Department of Financial Services.

Set forth below are certain material regulatory requirements that are applicable to the Company, the Bank and Mortgage World. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on the Company, the Bank and Mortgage World. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on the Company, the Bank and Mortgage World and their respective operations.

CARES Act

In response to the COVID-19 pandemic, the CARES Act was signed into law on March 27, 2020. Among other things, the CARES Act includes provisions impacting financial institutions like the Bank and Mortgage World. The CARES Act allows banks to elect to suspend requirement under GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. This relief was extended by the Consolidated Appropriations Act enacted on December 27, 2020 to the earlier of January 1, 2022 or 60 days after the termination of the national emergency. Federal banking agencies are required to defer to the determination of the banks making such suspension.

The CARES Act created the PPP. The PPP authorizes small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on certain debt. The loans are provided through participating financial institutions, such as Bank, that process loan applications and service the loans. The CARES Act appropriated $349.0 billion for PPP loans. On April 24, 2020, the PPP received another $310.0 billion in funding. On December 27, 2020, the Economic Aid Act appropriated another $284.0 billion for both first and second draw of PPP loans bringing the total appropriations for PPP loans to $943.0 billion. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. The PPP will expire on May 31, 2021, unless extended by new legislation.

Federal Bank Regulations

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. The Bank may also establish, subject to specified investment limits, service corporation subsidiaries that may engage in certain activities not otherwise permissible for Ponce Bank, including real estate investment and securities and insurance brokerage.

Examinations and Assessments. The Bank is primarily supervised by the OCC. The Bank is required to file reports with and is subject to periodic examination by the OCC. The Bank is required to pay assessments to the OCC to fund the agency's operations. The Company is required to file reports with and is subject to periodic examination by the Federal Reserve Board. It is also required to pay assessments to the Federal Reserve Board to fund the agency's operations.

Capital Requirements. Federal regulations require FDIC-insured depository institutions, including federal savings associations, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6.0% and 8.0%, respectively. The regulations also establish a minimum required leverage ratio of at least 4.0% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. In 2015, Ponce De Leon Federal Bank, the predecessor of Ponce Bank, made a one-time, permanent election to opt-out regarding the treatment of AOCI. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0.0% is assigned to cash and U.S. government securities, a risk weight of 50.0% is generally assigned to prudently underwritten first lien one-to-four family residential mortgages, a risk weight of 100.0% is assigned to commercial and consumer loans, a risk weight of 150.0% is assigned to certain past due loans and a risk weight of between 0.0% to 600.0% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is 2.5% of risk-weighted assets.

At December 31, 2020, 2019 and 2018, the Bank's capital exceeded all applicable requirements.

	2020		2019		2018	
	(Dollars in thousands)					
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital	$ 141,850	11.19%	$ 136,584	12.92%	$ 138,872	13.66%
Requirement	63,394	5.00%	52,843	5.00%	50,815	5.00%
Excess	78,455	6.19%	83,741	7.92%	88,057	8.66%
Tier 1 risk-based	141,850	14.70%	136,584	17.37%	138,872	18.14%
Requirement	77,213	8.00%	62,923	8.00%	61,261	8.00%
Excess	64,637	6.70%	73,661	9.37%	77,611	10.14%
Total Risk Based	153,951	15.95%	146,541	18.62%	148,486	19.39%
Requirement	96,516	10.00%	78,654	10.00%	76,577	10.00%
Excess	57,435	5.95%	67,887	8.62%	71,909	9.39%
Common equity Tier 1	141,850	14.70%	136,584	17.37%	138,872	18.14%
Risk-Based Requirement	62,735	6.50%	51,125	6.50%	49,775	6.50%
Excess	$ 79,114	8.20%	$ 85,459	10.87%	$ 89,097	11.64%

Mortgage World is subject to various net worth requirements in connection with regulatory requirements and lending agreements that Mortgage World has entered into with purchase facility lenders. Failure to maintain minimum capital requirements could result in Mortgage World's inability to originate and service loans, and, therefore, could have a direct material effect on the Company's consolidated financial statements.

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15.0% of unimpaired capital and surplus. An additional amount may be lent, equal to 10.0% of unimpaired capital and surplus, if secured by "readily marketable collateral," which generally includes certain financial instruments (but not real estate). As of December 31, 2020, the Bank was in compliance with the loans-to-one borrower limitations.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems, audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency pronouncements set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the pronouncements, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Prompt Corrective Action Regulations. Under the Federal Prompt Corrective Action statute, the OCC is required to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution's level of capital. A savings institution that has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 ratio of less than 4.5% or a leverage ratio of less than 4.0% is considered to be "undercapitalized." A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a common equity Tier 1 ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized." A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized."

Generally, the OCC is required to appoint a receiver or conservator for a federal savings association that becomes "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date that a federal savings association is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Any holding company of a federal savings association that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5.0% of the savings association's assets at the time it was deemed to be undercapitalized by the OCC or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures such as restrictions on capital distributions and asset growth. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2020, the Bank met the criteria for being considered "well capitalized," which means that its total risk-based capital ratio exceeded 10.0%, its Tier 1 risk-based ratio exceeded 8.0%, its common equity Tier 1 ratio exceeded 6.5% and its leverage ratio exceeded 5.0%.

Qualified Thrift Lender Test. As a federal savings association, the Bank must satisfy the qualified thrift lender, or "QTL," test. Under the QTL test, the Bank must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of every 12-month period. "Portfolio assets" generally means total assets of a savings association, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

Alternatively, the Bank may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must operate under specified restrictions set forth in the Home Owners' Loan Act. The Dodd-Frank Act made noncompliance with the QTL test subject to agency enforcement action for a violation of law. At December 31, 2020, the Bank satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association's capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceeds the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;

- the savings association would not be at least adequately capitalized following the distribution;

- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or

- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the Federal Reserve Board at least 30 days before its board of directors declares a dividend.

An application or notice related to a capital distribution may be disapproved if:

- the federal savings association would be undercapitalized following the distribution;

- the proposed capital distribution raises safety and soundness concerns; or

- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. A federal savings association also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form.

Community Reinvestment Act and Fair Lending Laws. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low and moderate-income borrowers. In connection with its examination of a federal savings association, the OCC is required to assess the federal savings association’s record of compliance with the Community Reinvestment Act. A savings association’s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. Ponce Bank, received a “satisfactory” Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. As a federal savings association, the Bank’s authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as the Bank. The Company is an affiliate of the Bank because of its control of the Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

The Bank’s authority to extend credit to its directors, executive officers and 10.0% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital.

In addition, extensions of credit in excess of certain limits must be approved by the Bank’s Board of Directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The OCC has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all “institution-affiliated parties,” including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings association. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and to the appointment of a receiver or conservator. Civil money penalties (“CMP”) cover a wide range of violations and actions. CMPs are classified into three tiers based on the actionable conduct and the level of culpability. The law sets maximum amounts that the OCC may assess for each day the actionable conduct continues. The FDIC also has the authority to terminate deposit insurance or recommend to the OCC that enforcement action be taken with respect to a particular federal savings association. If such action is not taken, the FDIC has authority to take the action under specified circumstances.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC insured financial institutions such as the Bank. Deposit accounts in the Bank are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. The Dodd-Frank Act required the FDIC to base its assessments upon each insured institution's total assets less tangible equity. The FDIC has set the assessment range at 1.5 to 40 basis points of total assets less tangible equity. Assessments for most institutions are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by FICO were due to mature in 2017 through 2019. For the year ended December 31, 2020, the annualized FICO assessment was equal to 0.48 basis points of total assets less tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of the Bank's deposit insurance.

OTHER REGULATIONS

Federal Reserve System

Generally, Federal Reserve Board regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). In an effort to respond to the negative effects on the economy from the COVID-19 pandemic, effective March 26, 2020, the Federal Reserve Board eliminated the reserve requirement for depository institutions in order to support lending to households and businesses.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLBNY, the Bank is required to acquire and hold shares of the capital stock of the FHLBNY. As of December 31, 2020, the Bank was in compliance with this requirement. The Bank may also utilize advances from the FHLBNY as a source of investable funds.

Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act, mandating certain disclosures to depositors; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Bank are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;

- The USA PATRIOT Act, which requires financial institutions to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirement that also apply to financial institutions under the Bank Secrecy Act and the Foreign Assets Control regulations; and

- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

- The Dodd-Frank Act made significant changes to the regulatory structure for depository institutions and their holding companies and also affected the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for both bank holding companies and savings and loan holding companies that are as stringent as those required for their insured depository subsidiaries. The Dodd-Frank Act created a new regulator, the Consumer Financial Protection Bureau ("CFPB"), and gave it broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, such as Ponce Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices.

Holding Company Regulations

General. The Company and Ponce Bank Mutual Holding Company are non-diversified savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, the Company and Ponce Bank Mutual Holding Company are registered with the Federal Reserve Board and are subject to the regulation, examination, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over the Company, Ponce Bank Mutual Holding Company and their non-savings association subsidiaries, if any. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities of those entities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. Under present law, the business activities of the Company and Ponce Bank Mutual Holding Company are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met and financial holding company status is elected, or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. The Company and Ponce Bank Mutual Holding Company each elected financial holding company status and received applicable clearance on February 21, 2019.

Federal law prohibits a savings and loan holding company, including the Company and Ponce Bank Mutual Holding Company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5.0% ("control") of another savings institution or savings and loan holding company, without prior Federal Reserve Board approval. The Federal Reserve Baord adopted a final rule on January 30, 2020, effective April 1, 2020, providing further guidance regarding under what circumstances "control" will be found to exist. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board considers factors such as the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the Federal Deposit Insurance Fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- the approval of interstate supervisory acquisitions by savings and loan holding companies; and
- the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

Capital. Savings and loan holding companies had historically not been subjected to consolidated regulatory capital requirements. The Dodd-Frank Act required the Federal Reserve Board to establish minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. However, pursuant to legislation passed in December 2014, the Federal Reserve Board extended to savings and loan holding companies the applicability of its "Small Bank Holding Company" exception to its consolidated capital requirements and, pursuant to a law enacted in May 2018, increased the threshold for the exception to $3.0 billion. As a result, savings and loan holding companies with less than $3.0 billion in consolidated assets, such as the Company, are generally not subject to the capital requirements unless otherwise advised by the Federal Reserve Board.

Source of Strength. The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all savings and loan holding companies serve as a source of strength to their subsidiary depository institutions.

Dividends and Stock Repurchases**.** The Federal Reserve Board has issued a policy statement regarding the payment of dividends by holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with Federal Reserve Bank staff concerning dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings association becomes undercapitalized. The regulatory guidance also states that a savings and loan holding company should inform Federal Reserve Bank supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Waivers of Dividends by Ponce Bank Mutual Holding Company. The Company may pay dividends on its common stock to public stockholders. If it does, it is also required to pay dividends to Ponce Bank Mutual Holding Company, unless Ponce Bank Mutual Holding Company elects to waive the receipt of dividends. Under the Dodd-Frank Act, Ponce Bank Mutual Holding Company must receive the approval of the Federal Reserve Board before it may waive the receipt of any dividends from the Company. The Federal Reserve Board has issued an interim final rule providing that it will not object to dividend waivers under certain circumstances, including circumstances where the waiver is not detrimental to the safe and sound operation of the savings association and a majority of the mutual holding company's members have approved the waiver of dividends by the mutual holding company within the previous twelve months. In addition, for a "non-grandfathered" mutual holding company such as Ponce Bank Mutual Holding Company, each officer or director of the Company and the Bank, and any tax-qualified stock benefit plan or non-tax-qualified stock benefit plan in which such individual participates that holds any shares of stock to which the waiver would apply, must waive the right to receive any such dividend declared. In addition, any dividends waived by Ponce Bank Mutual Holding Company must be considered in determining an appropriate exchange ratio in the event of a conversion of the mutual holding company to stock form**.**

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. The Federal Reserve Board adopted a final rule on January 30, 2020, effective April 1, 2020, providing further guidance regarding under what circumstances "control" will be found to exist.

New York State Department of Financial Services

The New York State Department of Financial Services ("DFS") is the primary regulator for all state-licensed and state-chartered banks, credit unions, and mortgage bankers and brokers. All mortgage loan servicers doing business in New York State must be registered or licensed by DFS.

Mortgage World is a mortgage banking entity primarily operating in the New York City metropolitan area. Mortgage World is subject to the comprehensive regulation and examination of the DFS.

Federal Securities Laws

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company is subject to the public disclosure, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than $1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." The Company qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation. The Company will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under SEC regulations (public float less than $250 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. The Company has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.07 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under SEC regulations (public float at least $700 million of voting and non-voting equity held by non-affiliates).

Taxation

Ponce Bank Mutual Holding Company, the Company, the Bank and Mortgage World are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to summarize material income tax matters and is not a comprehensive description of the tax rules applicable to Ponce Bank Mutual Holding Company, the Company, the Bank and Mortgage World.

The Company is subject to U.S. federal income tax, New York State income tax, Connecticut income tax, New Jersey income tax, Florida income tax, Pennsylvania income tax and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2017.

Federal Taxation

Method of Accounting. For federal income tax purposes, the Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal income tax returns. The Company and the Bank file a consolidated federal income tax return. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for income taxes on bad debt reserves by savings institutions. For taxable years beginning after 1995, Ponce De Leon Federal Bank, the predecessor of Ponce Bank, and Ponce Bank have been subject to the same bad debt reserve rules as commercial banks. The Bank currently utilizes the specific charge-off method under Section 582(a) of the Internal Revenue Code.

Net Operating Loss Carryovers. A financial institution may not carry back net operating losses ("NOL") to earlier tax years. The NOL can be carried forward indefinitely. The use of NOL to offset income is limited to 80%. The CARES Act allows NOLs generated in 2018, 2019 and 2020 to be carried back to each of the five preceding tax years. The Bank, did not generate NOLs in 2018, 2019 or 2020 so no carryback is available. At December 31, 2020, the Bank had no federal NOL carryforwards.

State Taxation

The Company is treated as a financial institution under Connecticut, New York, and New Jersey state income tax law. The states of Connecticut, New York, and New Jersey subject financial institutions to all state and local taxes in the same manner and to the same extent as other business corporations in Connecticut, New York and New Jersey. Additionally, depository financial institutions are subject to local business license taxes and a special occupation tax. Florida and Pennsylvania treat Mortgage World as a separate business corporation.

Consolidated Group Return. With tax years beginning after January 1, 2015, New York State and New York City require unitary combined reporting for all entities engaged in a unitary business that meet certain ownership requirements. All applicable entities meet the ownership requirements in the Bank filing group and a combined return is appropriately filed. Furthermore, New Jersey changed its tax laws and now requires combined reporting for tax years that end on or after July 31, 2019 for entities that engage in a unitary business. The Company will also begin filing a combined return in Connecticut for 2020.

Single Entity Return. The Company with also file entity returns in the states of Florida and Pennsylvania for Mortgage World for 2020.

Net Operating Loss Carryovers. The state and city of New York allow for a three-year carryback period and carryforward period of twenty years on net operating losses generated on or after tax year 2015. For tax years prior to 2015, no carryback period is allowed. Ponce De Leon Federal Bank, the predecessor of Ponce Bank, has pre-2015 carryforwards of $1.9 million for New York State purposes and $1.8 million for New York City purposes. Furthermore, there are post-2015 carryforwards available of $37.4 million for New York State purposes and $19.4 million for New York City purposes. Finally, for New Jersey purposes, losses may only be carried forward 20 years, with no allowable carryback period. At December 31, 2020, the Bank had no New Jersey net operating loss carryforwards.

Item 1A. Risk Factors.

COVID-19 Pandemic.

The effects of the COVID-19 pandemic have negatively affected the global economy, United States economy, our local economy and our markets and has disrupted our operations, which has impacted our business, financial condition and results of operations.

The COVID-19 pandemic has adversely affected us, our customers, employees and third-party service providers, and the adverse impacts on our business, financial position, operations and prospects could be significant.

The COVID-19 pandemic has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements and observe social distancing. These actions, together with responses to the pandemic by businesses and individuals, have resulted in reduced commercial and consumer activity, temporary and potentially permanent closures of many businesses that have led to loss of revenues and increased unemployment, material decreases in oil and gas prices and in business valuations, disrupted global supply chains, changes in consumer behavior related to COVID-19 pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment until at least the end of 2023. These changes have a significant adverse effect on the regions and markets in which we conduct our business and the demand for our products and services.

Business and consumer customers of the Bank and Mortgage World are experiencing varying degrees of financial distress, which has adversely affected the ability of some of them to timely pay interest and principal on their loans and the value of the collateral securing their obligations. This in turn has influenced the recognition of losses in our loan portfolios and has impacted our allowance for loan losses, particularly as businesses remain closed and as some customers draw on their lines of credit or seek additional loans. These developments as a consequence of the COVID-19 pandemic materially impact our business and the businesses of our customers and are expected to continue to have a material adverse effect on our financial results for 2021.

In order to protect the health of our customers and employees, and to comply with applicable government directives, we have modified our business practices, including restricting employee travel, directing employees to work from home insofar as is possible, reducing in-person meetings and implementing business continuity plans and protocols to the extent appropriate.

We may take further such actions that we determine are in the best interest of our employees, customers and communities or as may be required by government order. These actions in response to the COVID-19 pandemic, and similar actions by our vendors and business partners, have not materially impaired our ability to support our employees, conduct our business and serve our customers, but there is no assurance that these actions will be sufficient to successfully mitigate the risks presented by the COVID-19 pandemic or that our ability to operate will not be materially affected going forward. For instance, our business operations may be disrupted if key personnel or significant portions of our employees are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the COVID-19 pandemic. Similarly, if any of our vendors or business partners become unable to continue to provide their products and services, which we rely upon to maintain our day-to-day operations, our ability to serve our customers could be impacted.

Although vaccine programs addressing the COVID-19 pandemic have commenced, it is not possible to accurately predict when or the extent to which normal economic and operating conditions will resume. For this reason, the extent to which the COVID-19 pandemic affects our business, operations and financial condition, as well as our regulatory capital and liquidity ratios and credit ratings, is uncertain and unpredictable and depends on, among other things, new information that may emerge.

Lending.

Multifamily, nonresidential and construction and land loans may carry greater credit risk than loans secured by one-to-four family real estate.

Our focus is primarily on prudently growing our multifamily, nonresidential and construction and land loan portfolio. At December 31, 2020, $632.2 million, or 53.9%, of our loan portfolio consisted of multifamily, nonresidential and construction and land loans as compared to $556.8 million, or 57.6%, of our loan portfolio at December 31, 2019. Given their larger balances and the complexity of the underlying collateral, multifamily, nonresidential and construction and land loans generally expose a lender to greater credit risk than loans secured by one-to-four family real estate.

Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential real estate loan. In addition, any adverse developments with respect to borrowers or groups of borrowers that have more than one of these types of loans outstanding can expose us to significantly greater risk of loss compared to borrowers or groups of borrowers that only have one type of these loans. If loans that are collateralized by real estate or other business assets become troubled and the values of the underlying collateral have been significantly impaired, we may not be able to recover the full contractual amounts of principal and interest that we anticipated at the time we originated the loans, which could cause us to increase our provision for loan losses which would, in turn, adversely affect our operating results and financial condition. Further, if we foreclose on this type of collateral, our holding period for that collateral may be longer than for one-to-four family real estate loans because there are fewer potential purchasers of that collateral, which can result in substantial holding costs.

Some of our borrowers have more than one of these types of loans outstanding. At December 31, 2020, 40,088 loans with an aggregate balance of $1.0 billion are to borrowers with only one loan. Another 178 loans are to borrowers with two loans each with a corresponding aggregate balance of $117.7 million. In addition, there are 10 borrowers with three loans each with a corresponding aggregate balance of $9.1 million and four borrowers with four loans each with a corresponding aggregate balance of $1.7 million. There is one borrower with five loans with an aggregate balance of $6,000 and one borrower with seven loans with an aggregate balance of $1.1 million.

The unseasoned nature of our multifamily, nonresidential and construction and land loans portfolio may result in changes to our estimates of collectability, which may lead to additional provisions or charge-offs, which could hurt our profits.

Our multifamily, nonresidential and construction and land loan portfolio has increased approximately $75.4 million, or 13.5%, to $632.2 million at December 31, 2020 from $556.8 million at December 31, 2019 and increased approximately $39.8 million, or 7.7%, to $556.8 million at December 31, 2019 from $517.0 million at December 31, 2018. A large portion of our multifamily, nonresidential and construction and land loan portfolio is unseasoned and does not provide us with a significant payment or charge-off history pattern from which to judge future collectability. Currently, we estimate potential charge-offs using a rolling 12 quarter average and peer data adjusted for qualitative factors specific to us. As a result, it may be difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience or current estimates, which could adversely affect our future performance. Further, these types of loans generally have larger balances and involve a greater risk than one-to-four family owner-occupied residential mortgage loans. Accordingly, if we make any errors in judgment in the collectability of our multifamily, nonresidential and construction and land loans, any resulting charge-offs may be larger on a per loan basis than those incurred historically with our residential mortgage loans.

Our business may be adversely affected by credit risk associated with residential property.

At December 31, 2020 and 2019, one-to-four family residential real estate loans amounted to $418.4 million and $397.2 million, or 35.7% and 41.2%, respectively, of our total loan portfolio. Of these amounts, $319.6 million and $305.3 million, or 76.4% and 76.9%, respectively, is comprised of one-to-four family residential investor-owned properties. One-to-four family residential mortgage lending, whether owner-occupied or non-owner occupied is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations. Declines in real estate values could cause some of our one-to-four family residential mortgages to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

One-to-four family residential mortgage lending, whether owner-occupied or non-owner-occupied, with higher combined loan-to-value ratios are more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their properties, they may be unable to repay their loans in full from the sale proceeds. For those home equity loans and lines of credit secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property. In addition, the current judicial and legal climate makes it difficult to foreclose on residential properties expeditiously and with reasonable costs. For these reasons, we may experience higher rates of delinquencies, default and losses on our one-to-four family residential mortgage loans. The Bank actively monitors borrowers in forbearance and seeks to determine their capacity to resume payments as contractually obligated upon the termination of the forbearance period. The initial and extended forbearances are short-term modifications made on a good faith basis in response to the COVID-19 pandemic and in furtherance of governmental policies.

The geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in the local economy.

Although there is not a single employer or industry in our market area on which a significant number of our customers are dependent, a substantial portion of our loan portfolio is composed of loans secured by property located in the greater New York metropolitan area. This can make us vulnerable to a downturn in the local economy and real estate markets. Adverse conditions in the local economy, such as unemployment, recession, a catastrophic event, such as the COVID-19 pandemic, or other factors beyond our control, could impact the ability of our borrowers to repay their loans, which could adversely impact our net interest income. Decreases in local real estate values caused by economic conditions or other events could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure. See “Business - Market Area and - Competition.”

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings and capital could decrease.

At December 31, 2020 and 2019, respectively, our allowance for loan losses totaled $14.9 million and $12.3 million, which represented 1.27%, and 1.28% of total loans at such dates. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for many of our loans. In determining the amount of the allowance for loan losses, we review our loans, loss and delinquency experience, and business and commercial real estate peer data, and we evaluate other factors including, but not limited to, current economic conditions. If our assumptions are incorrect, or if delinquencies or non-performing loans increase, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance, which in turn, could materially decrease our net income.

In addition, our regulators, as well as auditors, as an integral part of their examination process, periodically review the allowance for loan losses and, as a result of such reviews, we may determine that it is appropriate to increase the allowance for loan losses by recognizing additional provisions for loan losses charged to income, or to charge off loans, which, net of any recoveries, would decrease the allowance for loan losses. Any such additional provisions for loan losses or charge-offs could have a material adverse effect on our financial condition and results of operations.

A worsening of economic conditions in our market area could reduce demand for our products and services and/or result in increases in our level of nonperforming loans, which could adversely affect our operations, financial condition and earnings.

Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing their loans. Any deterioration in economic conditions, such as resulting from the COVID-19 pandemic, could have the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, thereby reducing customers’ future borrowing power, and reducing the value of assets and collateral associated with existing loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions caused by inflation, recession, acts of terrorism, an outbreak of hostilities, a pandemic or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing their loans, which could negatively affect our financial performance.

We are subject to environmental liability risk associated with lending activities or properties we own.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties, or with respect to properties that we own in operating our business. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Our policies, which require us to perform an environmental review before initiating any foreclosure action on non-residential real property, may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

Growth.

Our business strategy includes growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Growing our operations could also cause our expenses to increase faster than our revenues.

Our business strategy includes growth in assets, loans, deposits and the scale of our operations. Achieving such growth will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, competition from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in expanding deposit and lending capacity that generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence and require alternative delivery methods. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in modernizing existing facilities, opening of new branches or deploying new services.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms and unregulated or less regulated non-banking entities, operating locally and elsewhere. Many of these competitors have substantially greater resources and higher lending limits than we have and offer certain services that we do not or cannot provide. In addition, some of our competitors offer loans with lower interest rates on more attractive terms than loans we offer. Competition also makes it increasingly difficult and costly to attract and retain qualified employees. Our profitability depends upon our continued ability to successfully compete in our market area. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected.

The financial services industry could become even more competitive as a result of new legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. For additional information see “Business—Market Area and—Competition.”

Our efficiency ratio is high, and we anticipate that it may remain high, as a result of the ongoing implementation of our business strategy.

Our non-interest expense totaled $47.5 million and $46.6 million for the years ended December 31, 2020 and 2019, respectively. Although we continue to analyze our expenses and pursue efficiencies where available, our efficiency ratio remains high as a result of the implementation of our business strategy combined with operating in an expensive market. Our efficiency ratio was 86.09% and 114.19% for the years ended December 31, 2020 and 2019, respectively. If we are unable to successfully implement our business strategy and increase our revenues, our profitability could be adversely affected.

Our small size makes it more difficult for us to compete.

Our small asset size makes it more difficult to compete with other financial institutions that are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. Our lower earnings may also make it more difficult to offer competitive salaries and benefits. In addition, our smaller customer base may make it difficult to generate meaningful non-interest income from such activities as securities and insurance brokerage. Finally, as a smaller institution, we are disproportionately affected by the continually increasing costs of compliance with new banking and other regulations.

Management.

We depend on our management team to implement our business strategy and execute successful operations and we could be harmed by the loss of their services.

We are dependent upon the services of the members of our senior management team who direct our strategy and operations. Members of our senior management team, or lending personnel who possess expertise in our markets and key business relationships, could be difficult to replace. Our loss of these persons, or our inability to hire additional qualified personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets. See Part III "Directors, Executives Officers, and Corporate Governance."

Adherence to our internal policies and procedures by management is critical to our performance and how we are perceived by our regulators.

Our internal policies and procedures are a critical component of our corporate governance and, in some cases, compliance with applicable regulations. We adopt internal policies and procedures to guide management and employees regarding the operation and conduct of our business. We may not always achieve absolute compliance with all of our policies and procedures. Any deviation or non-adherence to these internal policies and procedures, whether intentional or unintentional, could have a detrimental effect on our management, operations or financial condition.

Interest Rates.

The historically low interest rate environment and the possibility that we may access higher-cost funds to support our loan growth and operations may adversely affect our net interest income and profitability.

The Federal Reserve Board decreased the benchmark federal funds interest rate by an aggregate of 225 basis points during the second half of 2019 and first quarter of 2020. The 2020 rate cuts were in response to unprecedented market turmoil as a result of the onset of the COVID-19 pandemic. The Federal Reserve Board has stated that its federal funds interest rate policy will remain accommodative at least through 2023. Because of the historically low federal funds interest rate and significant competitive pressures in our markets and the negative impact of these pressures on our deposit and loan pricing, our net interest margin was and is being negatively impacted by these rate cuts and additional rate cuts may further negatively impact our net interest margin. These rate cuts and further rate cuts could also negatively impact our net interest income, particularly if we are unable to lower our funding costs as quickly as the rates we earn on our loans declines.

An important component of our ability to mitigate pressures of a down rate environment will be our ability to reduce the rates we pay on deposits, including core deposits. If we are unable to reduce these rates, because of competitive pricing pressures in our markets, liquidity purposes or otherwise, our net interest margin will be negatively impacted. In addition, as our growth in earning assets has outpaced growth in our core deposits in recent quarters, we have had to increase our reliance on noncore funding. These funding sources may be more rate sensitive than our core depositors, and, accordingly, we may be limited in our ability to reduce the rates we pay on these funds while maintaining on-balance sheet liquidity levels consistent with our policies, which would negatively impact our net interest margin. We seek to limit the amount of non-core funding we utilize to support our growth. If we are unable to grow our core funding at rates that are sufficient to match or exceed our loan growth we may be required to slow our loan growth.

As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities (usually deposits and borrowings) will be more sensitive to changes in market interest rates than our interest-earning assets (usually loans and investment securities), or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our results of operations and financial condition may be negatively affected. We attempt to manage our risk from changes in market interest rates by adjusting the rates, maturity, repricing characteristics, and balances of the different types of our interest-earning assets and interest-bearing liabilities. Interest rate risk management techniques are not exact. From time to time we have repositioned a portion of our investment securities portfolio in an effort to better position our balance sheet for potential changes in short-term rates. We employ the use of models and modeling techniques to quantify the levels of risks to net interest income, which inherently involve the use of assumptions, judgments, and estimates. While we strive to ensure the accuracy of our modeled interest rate risk profile, there are inherent limitations and imprecisions in this determination and actual results may differ.

Future changes in interest rates could reduce our profits and asset values.

Net income (loss) is the amount by which net interest income and non-interest income exceeds (or does not exceed) non-interest expense and the provisions for loan losses and taxes. Net interest income makes up a majority of our income and is based on the difference between:

- the interest income we earn on interest-earning assets, such as loans and securities; and
- the interest expense we pay on interest-bearing liabilities, such as deposits and borrowings.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many savings institutions, our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income we earn on our assets may not increase as rapidly as the interest we pay on our liabilities. In a period of declining interest rates, the interest income we earn on our assets may decrease more rapidly than the interest we pay on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called, requiring us to reinvest those cash flows at lower interest rates.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A decline in interest rates results in increased prepayments of loans and mortgage-backed and related securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Furthermore, an inverted interest rate yield curve, where short-term interest rates (which are usually the rates at which financial institutions borrow funds) are higher than long-term interest rates (which are usually the rates at which financial institutions lend funds for fixed-rate loans), can reduce a financial institution’s net interest margin and create financial risk for financial institutions who originate and hold longer-term, fixed rate mortgage loans.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Changes in the level of interest rates also may negatively affect the value of our assets and ultimately affect our earnings.

We monitor interest rate risk through the use of simulation models, including estimates of the amounts by which the economic value of our assets and liabilities (the Economic Value of Equity Model “EVE”) and our net interest income would change in the event of a range of assumed changes in market interest rates. At December 31, 2020, in the event of an instantaneous 100 basis point decrease in interest rates, we estimate that we would experience a 8.32% increase in EVE and a 1.19% decrease in net interest income. For further discussion of how changes in interest rates could impact us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk—Net Interest Income Simulation Models and—Economic Value of Equity Model.”

Mortgage World is a mortgage banking entity primarily operating in the New York City metropolitan area. Mortgage World is subject to the comprehensive regulation and examination of the DFS.

A significant market risk facing Mortgage World is interest rate risk, which includes the risk that changes in market interest rates will result in unfavorable changes in the value of Mortgage World’s assets or liabilities (“price risk”) and the risk that net interest income from Mortgage World’s mortgage loans will change in response to changes in market interest rates. This risk includes both changes in risk-free rates (usually the U.S. Treasury rate for an asset of the same duration) and changes in the premiums to risk-free rates of return required by investors, which may be the result of liquidity and/or investor perceptions of risk (“Market Spread”). The overall objective of Mortgage World’s interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates. Mortgage Word manages interest rate risk by entering into best efforts contracts of sale to third party investors.

Mortgage World sells loans to investors without recourse. The investors will assume the risk of loss or default by the borrower. However, Mortgage World is required by these investors to make certain standard representation and warranties relating to credit information, loan documentation and collateral. To the extent that Mortgage Word does not comply with such representation, or there are early payment defaults, Mortgage World may be required to repurchase the loans or indemnify these investors for any losses from borrower defaults. If loans payoff within a specified time frame, Mortgage World may be required to refund a portion of the sale proceeds to investors.

Changes in the valuation of securities held could adversely affect us.

At December 31, 2020 and 2019, our securities portfolio totaled $19.2 million and $21.5 million, which represented 1.4% and 2.0% of total assets, respectively. All of the securities in our portfolio as of December 31, 2020 were classified as available-for-sale with the exception of one security classified as held-to-maturity in the amount of $1.7 million. All of the securities in our portfolio as of December 31, 2019 were classified as available-for-sale. Accordingly, a decline in the fair value of our available-for-sale securities could cause a material decline in our reported equity and/or net income. At least quarterly, and more frequently when warranted by economic or market conditions, management evaluates all securities classified as available-for-sale with a decline in fair value below the amortized cost of the investment to determine whether the impairment is deemed to be other-than-temporary impairment ("OTTI"). For impaired debt securities that are intended to be sold, or more likely than not will be required to be sold, the full amount of market decline is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Non-credit related OTTI for debt securities is recognized in other comprehensive income net of applicable taxes. A decline in the market value of our securities portfolio could adversely affect our earnings.

Regulations.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations.

The Bank is subject to extensive regulation, supervision and examination by the OCC, and the Company is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Such regulation and supervision governs the activities in which the Bank and the Company may engage and are intended primarily for the protection of the Federal Deposit Insurance Fund and the depositors and borrowers of the Bank, rather than for our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and influencing the level of our allowance for loan losses. These regulations, along with existing tax, accounting, securities, insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in interpretation by us. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of operations.

The Dodd-Frank Act significantly changed the regulation of banks and savings institutions and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The various federal agencies have adopted a broad range of rules and regulations in compliance with the Dodd-Frank Act. Compliance with the Dodd-Frank Act and its regulations and policies has resulted in changes to our business and operations, as well as additional costs, and has diverted management's time from other business activities, all of which have adversely affected our financial condition and results of operations. Among other provisions recently enacted, the threshold to qualify for the Federal Reserve Board's Small Bank Holding Company Policy Statement was increased from $1.0 billion to $3.0 billion and federally-chartered savings banks and associations have been provided flexibility to adopt the powers of a national bank.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. The policies and procedures we have adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations.

Our ability to originate loans could be restricted by recently adopted federal regulations.

The CFPB has a rule intended to clarify how lenders can avoid legal liability under the Dodd-Frank Act, which holds lenders accountable for ensuring a borrower's ability to repay a mortgage loan. Under the rule, loans that meet the "qualified mortgage" definition will be presumed to have complied with the ability-to-repay standard. Under the rule, a "qualified mortgage" loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less “bona fide discount points” for prime loans);
- interest-only payments;
- negative amortization; and
- terms of longer than 30 years.

Also, to qualify as a “qualified mortgage,” a loan must be made to a borrower whose total monthly debt-to-income ratio does not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify a borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

In addition, the CFPB has adopted rules and published forms that combine certain disclosures that consumers receive in connection with applying for and closing on certain mortgage loans under the Truth in Lending Act and the Real Estate Settlement Procedures Act.

We are subject to stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or limit our ability to pay dividends or repurchase shares.

The Bank’s minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6.0%; (iii) a total capital ratio of 8.0%; and (iv) a Tier 1 leverage ratio of 4.0%. The capital requirements also establish a “capital conservation buffer” of 2.5%, which results in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount.

We have analyzed these capital requirements, and the Bank meets all of these requirements, including the 2.5% capital conservation buffer.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, and result in regulatory actions if we are unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of the requirements of the Basel Committee on Banking Supervision (“Basel III”) could result in our having to lengthen the term of our funding sources, change our business models or increase our holdings of liquid assets. Ponce Bank’s ability to pay dividends to the Company will be limited if it does not have the capital conservation buffer required by the capital rules, which may further limit the Company’s ability to pay dividends to stockholders. See “Regulation and Supervision—Federal Banking Regulation—Capital Requirements.”

Operations.

We face significant operational risks because the financial services business involves a high volume of transactions and increased reliance on technology, including risk of loss related to cyber security breaches.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions and to collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, systems failures or interruptions, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, including as a result of cyber-attacks or information security breaches, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected.

In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, or a breach of our security systems, including if confidential or proprietary information were to be mishandled, misused or lost, we could suffer financial loss, face regulatory action, civil litigation and/or suffer damage to our reputation.

The cost of finance and accounting systems, procedures and controls in order to satisfy our public company reporting requirements increases our expenses.

The obligations of being a public company, including the substantial public reporting obligations, require significant expenditures and place additional demands on our management team. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting. Any failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and stock price. In addition, we may need to hire additional compliance, accounting and financial staff with appropriate public company experience and technical knowledge. As a result, we may need to rely on outside consultants to provide these services for us until qualified personnel are hired. These obligations will increase our operating expenses and could divert our management's attention from our operations.

Changes in accounting standards could affect reported earnings.

The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the SEC and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively.

Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.

Our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date to file periodic reports under the Securities and Exchange Act of 1934, including our consolidated financial statements. These estimates and assumptions are based on management's best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for loan losses and our determinations with respect to amounts owed for income taxes.

Legal and regulatory proceedings and related matters could adversely affect us.

We have been and may in the future become involved in legal and regulatory proceedings. We consider most of the proceedings to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

The Bank is a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.

Our historical markets, minority and immigrant individuals, may be threatened by gentrification and adverse political developments, which could decrease our growth and profitability.

We believe that our historical strength has been our focus on the minority and immigrant markets. The continuing displacement of minorities due to gentrification of our communities may adversely affect us unless we are able to adapt and increase the acceptance of our products and services by non-minority customers. We may also be unfavorably impacted by political developments unfavorable to markets that are dependent on immigrant populations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of December 31, 2020, the net book value of the Company's office properties including leasehold improvements was $27.8 million, and the net book value of its furniture, fixtures and other equipment and software was $4.3 million. The Company's and Bank's executive offices are located in an owned facility at 2244 Westchester Avenue, Bronx, New York and Mortgage World's executive office is located at 32-75 Steinway Street, Astoria, NY 11103.

The following table sets forth information regarding the Company's offices as of December 31, 2020.

Location	Leased or Owned	Year Acquired or Leased	Net Book Value of Real Property
			(In thousands)
Main Office:			
2244 Westchester Avenue Bronx, NY 10462	Owned	1995	$ 6,507
Other Properties:			
980 Southern Blvd. Bronx, NY 10459	Leased	1990	1,050
37-60 82nd Street Jackson Heights, NY 11372	Owned	2006	8,072
51 East 170th Street Bronx, NY 10452	Leased	2018	870
169-174 Smith Street Brooklyn, NY 11201	Owned	1988	40
1925 Third Avenue New York, NY 10003	Leased	1996	1,761
2244 Westchester Avenue Bronx, NY 10462	Owned	1995	821
5560 Broadway Bronx, NY 10463	Owned	1998	1,115
3405-3407 Broadway Astoria, NY 11106	Leased	2001	437
3821 Bergenline Avenue Union City, NJ 07087	Owned	2001	1,564
1900-1960 Ralph Avenue Brooklyn, NY 11234	Leased	2007	464
20-47 86th Street Brooklyn, NY 11214	Owned	2010	3,613
100-20 Queens Blvd Forest Hills, NY 11375	Leased	2010	395
319 First Avenue New York, NY 10003	Leased	2010	792
32-75 Steinway Street Astoria, NY 11103	Leased	2020	128
500 Old Country Road Suite 316 Garden City, NY 11530	Leased	2020	114
375 Sylvan Avenue Englewood Cliffs, NJ 07632	Leased	2020	—
26-58 Coney Island Avenue Brooklyn, NY 11223	Leased	2020	10
42 South Washington Avenue Bergenfield, NJ 07621	Leased	2020	3
135-14 Northern Blvd. Flushing, NY 11354	Leased	2020	—
			$ 27,756

Item 3. Legal Proceedings.

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's shares of common stock are traded on the NASDAQ Global Market under the symbol "PDLB".

The number of stockholders of record of the Company's common stock as of March 25, 2021 was 204. The number of record-holders may not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees.

To date, the Company has not paid any dividends to its stockholders. We have no current plan or intention to pay cash dividends to our stockholders. However, if in the future the Board of Directors considers the payment of dividends, the amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; the Federal Reserve Board's current regulations restricting the waiver of dividends by mutual holding companies; and general economic conditions. No assurance can be given that the Board of Directors will ever consider the payment of dividends, and shareholders should have no expectation of such. The Federal Reserve Board has issued a policy statement providing that dividends should be paid only out of current earnings and only if our prospective rate of earnings retention is consistent with our capital needs, asset quality and overall financial condition. Regulatory guidance also provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the holding company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the holding company's overall rate of earnings retention is inconsistent with its capital needs and overall financial condition. In addition, the Company's ability to pay dividends will be limited if it does not have the capital conservation buffer required by the capital rules, which may limit our ability to pay dividends to our stockholders. See "Regulation and Supervision—Federal Bank Regulation—Capital Requirements." No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future.

We will file a consolidated federal tax return with Ponce Bank and Mortgage World. Accordingly, it is anticipated that any cash distributions that we make to our stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes.

Pursuant to our charter, we are authorized to issue preferred stock. If we issue preferred stock, the holders thereof may have a priority over the holders of our shares of common stock with respect to the payment of dividends. For a further discussion concerning the payment of dividends on our shares of common stock, see "Holding Company Regulations—Dividends and Stock Repurchases." Dividends we can declare and pay will depend, in part, upon receipt of dividends from Ponce Bank, because currently we will have no source of income other than dividends from Ponce Bank and Mortgage World and earnings from the investment of funds held by the Company and interest payments received in connection with the loan to the employee stock ownership plan. Regulations of the Federal Reserve Board and the OCC impose limitations on "capital distributions" by savings institutions. See "Regulation and Supervision—Federal Bank Regulation—Capital Requirements."

Any payment of dividends by Ponce Bank to the Company that would be deemed to be drawn out of Ponce Bank's bad debt reserves, if any, would require a payment of taxes at the then-current tax rate by Ponce Bank on the amount of earnings deemed to be removed from the reserves for such distribution. Ponce Bank does not intend to make any distribution to the Company that would create such a federal tax liability. See "Taxation."

If the Company should ever pay dividends to its stockholders, it will likely pay dividends to Ponce Bank Mutual Holding Company. The Federal Reserve Board's current regulations significantly restrict the ability of mutual holding companies to waive dividends declared by their subsidiaries. Accordingly, we do not anticipate that, should a dividend ever be paid, Ponce Bank Mutual Holding Company will waive dividends paid by the Company. See "Regulation and Supervision-Other Regulations- Waivers of Dividends by Ponce Bank Mutual Holding Company."

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

There were no sales of registered securities during the year ended December 31, 2020. The Company has made no sales of unregistered securities.

Issuer Purchases of Equity Securities

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended December 31, 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2020 - October 31, 2020	25,399	$ 9.54	208,790	656,197
November 1, 2020 -November 30, 2020	44,920	$ 10.58	253,710	—
December 1, 2020 - December 31, 2020	16,720	$ 11.28	16,720	835,582
Total	**87,039**	**$ 10.41**		

The Company repurchased 87,039 shares and 215,704 shares of its common stock at an aggregate cost of $906,000 and $3.1 million during the three months ended December 31, 2020 and 2019, respectively and repurchased 421,824 shares and 1,102,029 shares of its common stock at an aggregate cost of $4.7 million and $15.8 million during the years ended December 31, 2020 and 2019, respectively.

The Company adopted a share repurchase program effective March 25, 2019 which expired on September 24, 2019. Under the repurchase program, the Company was authorized to repurchase up to 923,151 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. On November 13, 2019, the Company adopted a second share repurchase program. Under this second program, the Company was authorized to repurchase up to 878,835 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The Company's second share repurchase program was terminated on March 27, 2020 in response to the uncertainty related to the unfolding COVID-19 pandemic. On June 1, 2020, the Company adopted a third share repurchase program. Under this third program, the Company was authorized to repurchase up to 864,987 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The Company's third share repurchase program expired on November 30, 2020. On December 14, 2020, the Company adopted a fourth share repurchase program. Under this fourth program, the Company is authorized to repurchase up to 852,302 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The fourth repurchase program may be suspended or terminated at any time without prior notice, and it will expire no later than June 13, 2021.

As of December 31, 2020, the Company had repurchased a total of 1,523,853 shares under the repurchase programs at a weighted average price of $13.43 per share, of which 1,337,059 shares are reported as treasury stock. Of the 1,523,853 shares repurchased, a total of 186,960 shares have been used for grants given to directors, executive officers and non-executive officers under the Company's 2018 Long-Term Incentive Plan pursuant to restricted stock units which vested on December 4, 2020 and 2019. Of these 186,960 shares, 166 shares were retained to satisfy a recipient's taxes and other withholding obligations and these shares remain as part of treasury stock.

Item 6. Selected Financial Data.

The summary information presented below at or for each of the periods presented is derived in part from, and should be read in conjunction with, the consolidated financial statements of the Company presented in Item 8.

	At December 31,				
	2020	2019	2018	2017	2016
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 1,355,231	$ 1,053,756	$ 1,059,901	$ 925,522	$ 744,983
Cash and cash equivalents	72,078	27,677	69,778	59,724	11,716
Available-for-sale securities, at fair value	17,498	21,504	27,144	28,897	52,690
Held-to-maturity securities, at amortized cost	1,743	—	—	—	—
Placements with banks	2,739	—	—	—	—
Mortgage loans held for sale, at fair value	35,406	1,030	—	—	2,143
Loans receivable, net	1,158,640	955,737	918,509	798,703	642,148
Premises and equipment, net	32,045	32,746	31,135	27,172	26,028
FHLBNY stock, at cost	6,426	5,735	2,915	1,511	964
Deposits	1,029,579	782,043	809,758	713,985	643,078
Advances from FHLBNY	117,255	104,404	69,404	36,400	3,000
Warehouse lines of credit	29,961	—	—	—	—
Mortgage loan fundings payable	1,483	—	—	—	—
Total stockholders' equity	159,544	158,402	169,172	164,785	92,992

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(In thousands)				
Selected Operating Data:					
Interest and dividend income	$ 53,339	$ 50,491	$ 46,156	$ 38,989	$ 33,741
Interest expense	11,369	12,358	9,490	6,783	5,936
Net interest income	41,970	38,133	36,666	32,206	27,805
Provision (credit) for loan losses	2,443	258	1,249	1,716	(57)
Net interest income after provision for loan losses	39,527	37,875	35,417	30,490	27,862
Noninterest income	13,247	2,683	2,938	3,104	2,431
Noninterest expense	47,539	46,607	34,557	36,557	27,863
Income (loss) before income taxes	5,235	(6,049)	3,798	(2,963)	2,430
Provision (benefit) for income taxes	1,382	(924)	1,121	1,424	1,005
Net income (loss)	3,853	(5,125)	2,677	(4,387)	1,425

	At or For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Performance Ratios:					
Return on average assets	0.32%	(0.49%)	0.28%	(0.51%)	0.20%
Return on average equity	2.42%	(3.08%)	1.60%	(3.52%)	1.53%
Net interest rate spread (1)	3.37%	3.40%	3.57%	3.76%	3.82%
Net interest margin (2)	3.69%	3.79%	3.92%	4.02%	4.02%
Noninterest expense to average assets	3.98%	4.47%	3.56%	4.28%	3.84%
Efficiency ratio (3)	86.09%	114.19%	87.26%	103.53%	92.15%
Average interest-earning assets to average interest- bearing liabilities	131.65%	132.25%	134.52%	130.35%	123.84%
Average equity to average assets	13.31%	15.96%	17.26%	14.58%	12.81%
Capital Ratios:					
Total capital to risk weighted assets (bank only)	15.95%	18.62%	19.39%	20.73%	19.21%
Tier 1 capital to risk weighted assets (bank only)	14.70%	17.37%	18.14%	19.48%	17.96%
Common equity Tier 1 capital to risk-weighted assets (bank only)	14.70%	17.37%	18.14%	19.48%	17.96%
Tier 1 capital to average assets (bank only)	11.19%	12.92%	13.66%	14.67%	13.32%
Asset Quality Ratios:					
Allowance for loan losses as a percentage of total loans	1.27%	1.28%	1.36%	1.37%	1.57%
Allowance for loan losses as a percentage of nonperforming loans	127.28%	106.30%	186.77%	97.05%	132.15%
Net (charge-offs) recoveries to average outstanding loans during the year	0.01%	(0.06%)	0.04%	(0.12%)	0.13%
Non-performing loans as a percentage of total loans	1.00%	1.20%	0.73%	1.41%	1.19%
Non-performing loans as a percentage of total assets	0.86%	1.10%	0.64%	1.23%	1.04%
Total non-performing assets as a percentage of total assets	0.86%	1.10%	0.64%	1.23%	1.04%
Total non-performing assets, accruing loans past due 90 days or more, and accruing troubled debt restructured loans as a percentage of total assets	1.35%	1.92%	1.63%	2.72%	3.50%
Other:					
Number of offices (4)	20	14	14	14	14
Number of full-time equivalent employees (5)	227	183	181	177	174

(1) Net interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average rate of average interest-bearing liabilities.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.
(4) Number of offices at December 31, 2020 included six offices due to the acquisition of Mortgage World.
(5) Number of full-time equivalent employees at December 31, 2020 included 46 employees due to acquisition of Mortgage World.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management's discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those described below. Such risks and uncertainties include, but are not limited to, those identified below and those described in Part I, Item 1A. "Risk Factors," within this Annual Report on Form 10-K.

Overview

We have made significant investments over the last several years in adding experienced bankers, expanding our lending and relationship staff, absorbing the costs of being a public company, upgrading technology and facilities and acquiring Mortgage World. These investments have increased our operating expenses during those periods. However, during those same periods, we have been able to significantly grow the Bank's loan portfolio while improving its asset quality and strengthening its capital.

Abrupt changes in interest rates will present us with a challenge in managing our interest rate risk. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which can result in interest expense increasing more rapidly than increases in interest income as interest rates increase and lowering our interest expense faster than lowering our interest income as interest rates decrease. Therefore, increases in interest rates may adversely affect our net interest income and net economic value, which in turn would likely have an adverse effect on our results of operations. Conversely, decreases in interest rates may have a favorable effect on our net interest income and net economic value, which in turn would likely have a positive effect on our results of operations. As described in "—Management of Market Risk," we expect that our net interest income and our net economic value would react inversely to instantaneous changes in interest rates. To help manage interest rate risk, we promote core deposit products and we are diversifying our loan portfolio by introducing new lending programs. See "—Business Strategy", "—Management of Market Risk" and "Risk Factors—Future changes in interest rates could reduce our profits and asset values."

Employees and Human Capital Resources

As of December 31, 2020, the Company had 227 full time equivalent employees. None of the Company's employees are represented by a labor union, and management considers its relationship with employees to be good. We believe our ability to attract and retain employees is a key to the Company's success. Accordingly, we strive to offer competitive salaries and employee benefits to all employees and monitor salaries in our market area.

The Company encourages and supports the growth and development of our employees. Continual learning and career development is advanced through ongoing performance and development conversations with employees, internally developed training programs and educational reimbursement programs.

A significant focus of the Company is the health and well-being, physical and financial, of staff. Recognizing the increasing stress levels of the staff understandably resulting from personal health concerns, the demise of friends, relatives and co-workers, childcare pressures amid telecommuting, increasing costs of food and supplies, to name a few. The Company paid every staff member regardless of work status, provided recurring town hall and mental health sessions, instituted additional compensation for branch personnel, subsidized branch personnel commuting using non-public transportation, facilitated paid-time-off for childcare and ensured staff suffering from the COVID-19 pandemic symptoms had ample paid-time-off. To ensure the proper enforcement of safe distancing rules, the Company retained security guards at all branches, in many cases multiple guards.

Business Strategy

Our goal is to provide long-term value to our stakeholders, our stockholders, customers, employees and the communities we serve by executing a safe and sound business strategy that produces increasing value. We believe there is a significant opportunity for an immigrant community-focused, minority directed bank to provide a full range of financial services to commercial and retail customers in our market area.

Our current business strategy consists of the following:

- ***Continue to expand our multifamily and nonresidential loans.*** The additional capital raised in the stock offering increased our capacity to originate multifamily and nonresidential loans. Under our current board approved loan concentration policy, such loans, including construction and land loans, shall not exceed 400% of our total risk-based capital. Most multifamily and nonresidential loans are originated with adjustable rates and, as a result, these loans are expected to change loan yields due to their shorter repricing terms compared to longer-term fixed-rate loans.

- ***Community lending programs.*** The Bank is an authorized direct lender under the Small Business Administration ("SBA") and a Community Development Financial Institution ("CDFI"). Both of these programs, combined with our pre-existing products, bolster the Bank's commitment to continue to serve the communities that it has supported over the past sixty years.

- ***Continue to increase core deposits, with an emphasis on low cost commercial demand deposits, and add non-core funding sources***. Deposits are the major source of balance sheet funding for lending and other investments. Certificates of deposits, brokered deposits, and listing service deposits supplement the Bank's funding base. We have made significant investments in new products and services, marketing programs, personnel, branch distribution system as well as enhancing our electronic delivery solutions in an effort to become more competitive in the financial services marketplace and attract more core deposits. Core deposits are our least costly source of funds and represent our best opportunity to develop customer relationships that enable us to cross-sell our enhanced products and services.

- ***Manage credit risk to maintain a low level of nonperforming assets***. We believe strong asset quality is a key to our long-term financial success. Our strategy for credit risk management focuses on having an experienced team of credit professionals, well-defined policies and procedures, appropriate loan underwriting criteria and active credit monitoring. The majority of our non-performing assets have been related, largely, to one-to-four family residential loans and, to a lesser extent, construction and land loans. We continue to focus on our credit review function, adding both personnel and ancillary systems, in order to be able to evaluate more complex loans and better manage credit risk, to further support our intended loan growth.

- ***Expand our employee base to support future growth***. We have already made significant investments in our employee base. However, we will continue to work to attract and retain the necessary talent to support increased lending, deposit activities and enhanced information technology.

- ***Grow organically and through opportunistic bank or acquisitions***. We focus primarily on organic growth as a lower-risk means of deploying our capital. We will fund improvements in our operating facilities and customer delivery services in order to enhance our competitiveness. Opportunistic acquisition and/or partnership opportunities are explored if we believe they would enhance the value of our franchise and yield potential financial benefits for our stakeholders. Although we believe opportunities exist to increase our market share in our current banking locations, we will not be adverse to expanding into nearby markets, enlarging our current branch network, or adding loan production offices, provided we believe such efforts would enhance our competitive standing. On July 10, 2020, the Company completed its acquisition of 100 percent of the shares of common stock of Mortgage World.

Non-GAAP Financial Measures

The following discussion contains certain non-GAAP financial measures in addition to results presented in accordance with GAAP. These non-GAAP measures are intended to provide the reader with additional supplemental perspectives on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company's GAAP financial information. The Company's non-GAAP measures may not be comparable to similar non-GAAP information which may be presented by other companies. In all cases, it should be understood that non-GAAP operating measures do not depict amounts that accrue directly to the benefit of shareholders. An item that management excludes when computing non-GAAP adjusted earnings can be of substantial importance to the Company's results and condition for any particular year. A reconciliation of non-GAAP financial measures to GAAP measures is provided below.

The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. Management believes that these non-GAAP financial measures are useful in evaluating the Company's financial performance and facilitate comparisons with the performance of other financial institutions. However, the information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

The table below includes references to the Company's net income and earnings per share for the years ended December 31, 2020 and 2019 before gain on sale of real property and deduction of expenses related to termination of the Company's Defined Benefit Pension Plan ("Defined Benefit Plan"), respectively. In management's view, that information, which is considered non-GAAP information, may be useful to investors as it will improve comparability of core operations year over year and in future periods. The non-GAAP net income amount and earnings per share reflect adjustments of the non-recurring gain on sale of real property and charges associated with termination of the Defined Benefit Plan, net of tax effect. A reconciliation of the non-GAAP information to GAAP net income and earnings per share is provided below.

Non-GAAP Reconciliation – Net Income Before Gain on Sale of Real Property and Loss on Termination of Defined Benefit Plan (Unaudited)

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands, except per share data)	
Net income (loss) - GAAP	$ 3,853	$ (5,125)
Gain on sale of real property	(4,177)	—
Loss on termination of pension plan	—	9,930
Income tax provision (benefit)	877	(2,086)
Net income - non-GAAP	$ 553	$ 2,719
Earnings (loss) per common share (GAAP) (1)	$ 0.23	$ (0.29)
Earnings per common share (non-GAAP) (1)	$ 0.03	$ 0.16

(1) Basic earnings per share were computed (for the GAAP and non-GAAP basis) based on the weighted average number of shares outstanding during the years ended December 31, 2020 and 2019 (16,673,193 shares and 17,432,318 shares, respectively). The assumed exercise of outstanding stock options and vesting of restricted stock units were included in computing the non-GAAP diluted earnings per share and do not result in material dilution.

COVID-19 Pandemic and the CARES Act

On March 27, 2020, Congress passed, and the President signed, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to address the economic effects of the COVID-19 pandemic.

The CARES Act appropriated $349.0 billion for PPP loans and on April 24, 2020, the PPP received another $310.0 billion in funding. On December 27, 2020, the Economic Aid Act appropriated $284.0 billion for both first and second draw PPP loans, bringing the total appropriations for PPP loans to $943.0 billion. PPP is scheduled to end on May 31, 2021, unless extended by further legislation. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. As of December 31, 2020, the Bank had received SBA approval for over 1,000 PPP applications, of which the Bank disbursed 957 loans totaling $85.3 million. PPP loans have a two-year or five-year term, provide for fees of up to 5% of the loan amount and earn interest at a rate of 1% per annum. It is our expectation that a significant portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. These loans resulted in $3.1 million in gross processing fee income to be recognized over the life of the respective loans. The average authorized loan size is $89,000 and the median authorized loan size is $17,000. We have estimated that approximately 10,918 jobs have been positively impacted. The Bank, both an MDI and a CDFI, made 957 PPP loans in the amount of $85.3 million significantly exceeding the reported average MDI/CDFI performance.

In conjunction with the PPP, the Board of Governors of the Federal Reserve System (the "Federal Reserve") has created a lending facility for qualified financial institutions. The Paycheck Protection Program Liquidity Facility will extend credit to depository institutions until June 30, 2021, unless the Board and the Department of Treasury determine to extend the Facility at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility.

Although New York is no longer the hotbed of the COVID-19 pandemic in the United States, the Company continues to alter the way it has historically provided services to its deposit customers while seeking to maintain normal day-to-day back-office operations and lending functions. To that end, all back-office and lending personnel continue to work in a remote work environment while the branch network continues to provide traditional banking services to its communities and has for the most part returned to normal operating hours while continuing to shift service delivery to electronic and web-based products. The Company continues its extensive and intensive communications program geared to informing customers of the alternative resources provided by the Company for retaining access to financial services, closing loans and conducting banking transactions, such as ATM networks, online banking, mobile applications, remote deposits and the Company's Contact Center. The Company proactively manages its day-to-day operations by using video and telephonic conferencing. Currently, the Company is renovating its office spaces to make these more accessible with employees' working environment as a result of the COVID-19 pandemic.

Through December 31, 2020, 412 loans aggregating $380.3 million had received forbearance primarily consisting of the deferral of principal, interest, and escrow payments for a period of three months. Of those 412 loans, 339 loans aggregating $306.5 million are no longer in deferment and continue performing and 73 loans in the amount of $73.8 million remained in deferment. Of the 73 loans in deferment, 72 loans in the amount of $73.5 million are in renewed forbearance and one loan in the amount of $297,000 is in its original forbearance. All of these loans had been performing in accordance with their contractual obligations prior to the granting of the initial forbearance. The Company actively monitors the business activities of borrowers in forbearance and seeks to determine their capacity to resume payments as contractually obligated upon the termination of the forbearance period. The initial and extended forbearances are short-term modifications made on a good faith basis in response to the COVID-19 pandemic and in furtherance of governmental policies.

Critical Accounting Policies

Accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management and that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policy relates to the allowance for loan losses.

The allowance for loan losses is established as probable incurred losses are estimated to occur through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The discussion and analysis of the financial condition and results of operations are based on the Company's consolidated financial statements, which are prepared in conformity with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. The estimates and assumptions used are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of the Company's assets and liabilities and results of operations.

See Note 1, "Nature of Business and Summary of Significant Accounting Policies," of the Notes to the accompanying Consolidated Financial Statements for a discussion of significant accounting policies.

Factors Affecting the Comparability of Results

Defined Benefit Plan. On May 31, 2019, the Company's Board of Directors approved the termination of the Defined Benefit Plan which was liquidated on December 1, 2019. The benefit obligations settled by the lump sum payments and annuity contracts resulted in payments from plan assets of approximately $13.9 million. The remaining previously unrecognized losses in accumulated other comprehensive loss relating to the Defined Benefit Plan were recognized as an expense and a pre-tax charge of approximately $9.9 million ($7.8 million after-tax) was recorded in other income (expense), net, in our consolidated statements of income (loss) during the fourth quarter of 2019.

Sale of Real Property. On July 27, 2020, the Bank completed the sale of the real property that was owned by the Bank and was the former location of a branch banking office, located at 30 East 170th Street, Bronx, New York (the "Real Property"). The purchase price for the Real Property was $4.7 million and the Bank recognized a net gain of $4.2 million, net of expenses.

Vision 2020

The Company has engaged in a multi-pronged effort to upgrade its infrastructure, adopt electronic banking services and restructure its retail business model. Dubbed internally "Vision 2020," the effort has had significant beneficial results, continues to involve significant investments and has served to ameliorate the otherwise detrimental effects of the COVID-19 pandemic.

As part of Vision 2020, the Company implemented Salesforce applications throughout the organization, including retail services, lending processes, back-office operations, digital banking and loan underwriting. The Company retained consulting firms to assist in the implementation. The Company anticipates investing over the next four-years a total of $2.5 million, with a positive return on investment within 18 months. The full implementation has been somewhat delayed due to the COVID-19 pandemic but continues to progress.

The infrastructure upgrade has focused primarily on implementing technology, cybersecurity and network progression while establishing a Virtual Private Network ("VPN"). Centered largely on the Company's core processor, to date the infrastructure upgrade has resulted in relocating and migrating network and in-house servers, replacing outdated PCs, enhancing internet capabilities, purchasing and deploying VPN-enabled laptops to a significant majority of personnel and the redeployment of disaster recovery capabilities. The Company has achieved certain manpower-related cost savings and enabled the uninterrupted continuity of operations by its staff working remotely during the COVID-19 pandemic and the virtual emptying of its operations and headquarters premises using its newly deployed disaster recovery capabilities. The infrastructure upgrade has added resiliency, capacity and redundancies to the Company's technology structures and resulted in a net increase of $47,000 in recurring monthly data processing costs. Significant one-time costs were incurred to implement the upgrades.

The Company has adopted over 48 new electronic banking services, products and applications since late 2018. These services range from on-line banking, mobile banking, bill pay, positive pay, remote deposit capture, cash management services, e-statements, data storage and management, ACH services, social media capabilities, electronic document storage, a paperless environment and VoIP telecommunications with an automation-based, dual-language Customer Contact Center. The expansion of electronic banking capabilities was accomplished largely with minimal additional operating expenses as a result of renegotiations of the Company's core processing arrangements. Importantly, these services enabled the Company to continue serving its customers as they, and the Company, switched to remote work environments.

The Company continued with key investments, spending a combined $3.5 million in one-time expenses by incurring $1.2 million for the implementation of GPS, our Salesforce based CRM, $1.1 million of expenses for meeting the needs of Ponce Bankers to maintain their jobs, temporarily enhance their benefits and protect them from the COVID-19 pandemic and $1.2 million advancing the Company's ability to operate digitally, without paper. Additionally, the Company protected its asset quality by increasing ALLL by $2.5 million in response to plausible the COVID-19 pandemic repercussions. The Company was able to offset these $3.5 million one-time expenses with the $4.2 million gain, net of expenses, recognized from the sale of the real property associated with a former branch.

During the year ended December 31, 2020, the Company rolled out its first Fintech-based product in partnership with the startup company Grain. The product, Grain, is a mobile application geared to the underbanked and new generations entering the financial services market that uses non-traditional underwriting methodologies. Under the terms of its agreement with Grain, the Bank is the lender for Grain-originated microloans to consumers, with credit lines currently not to exceed $1,000. Grain services the loans and is responsible for maintaining compliance with the Bank's origination and servicing standards. To the extent such standards are not maintained, Grain is responsible for any related losses. As of December 31, 2020, the Company, pursuant to its partnership with Grain, has originated 37,858 consumer loans with balances totaling $25.5 million and 8,693 deposit accounts totaling $1.8 million. The Company is also finalizing a Fintech-based small business automated lending product in partnership with LendingFront Technologies, Inc. The product is mobile application that enables the Company to originate, close and fund small business loans within very short spans of time, without requiring a physical presence within banking offices with automated underwriting using non-traditional methods. The Company expects that all of its Commercial Relationship Officers and Business Development Managers will utilize these capabilities upon the easing of the COVID-19 pandemic. The Company also established a relationship with SaveBetter, LLC, a new fintech startup focusing on brokered deposits.

The Company's on-going adoption of a new retail business model has been all-encompassing. It has involved the redesign of its retail branches, the shift of branch operations to a centralized back office, the deployment of smart ITM-enabled ATMs and Teller Cash Recyclers, the automation of manual processes and, importantly, the adoption of universal bankers and retail sales. In 2019, the Company earned national recognition as Branch Innovators of the Year for its retail banking model at the 2019 Future Branches Retail Banking Summit in Austin, Texas. The Company has completed the redesign and renovation of two branches at a buildout cost of $2.4 million, including the relocation of one branch to a smaller footprint. The relocation has resulted in a reduction of monthly operating costs. The Company recognized a $4.2 million gain, net of expenses, from the sale of the real estate associated with the former branch on July 27, 2020.

The Company anticipates renovating most, if not all of its branches over the next 18 months, at costs significantly less than previous efforts largely as a result of economies of scale, design modifications and adoption of buildout techniques used by non-bank retail organizations. The project to fully renovate our Flatlands branch was completed in late November 2020 on time and within the original budget of $356,000 despite modifications made to the original design and construction process related to the COVID-19 pandemic. Bidding to renovate the Bank's Riverdale branch into a new flagship recapturing space that had previously been subleased is complete and the project has been awarded for a contract cost of $1.5 million. Construction commenced on this project on March 1, 2021 and should be completed early in the third quarter of 2021. A bid has also been accepted for renovation of our Astoria branch with construction scheduled to begin in the second quarter of 2021. The awarded contract is $315,000. The Company expects to incorporate into its retail branches mortgage origination personnel, now that the acquisition of Mortgage World has been completed, and plans to create kiosk branches in certain of Mortgage World's current locations while creating a full service branch at the site of a Mortgage World mortgage office located in Flushing, Queens, New York. The Mortgage World office located in Flushing, Queens has been purchased using IRS code section 1031 provisions, thus expanding the Company's reach into one of the most underserved areas of Queens according to recently reported PPP loan penetration data.

The Company has mostly completed the deployment of new smart ATMs and TCRs at a capitalized cost of $1.9 million. The new equipment has improved customer satisfaction and speeded up transaction processing; it also enabled the Company to reduce manned hours of operations while continuing to service retail customers during the COVID-19 pandemic. It also allowed the

Company to expand its ATM network and increase its interchange income. The shift of branch operations activities and the automation of the processes have improved operating efficiencies and enabled branch personnel to focus on customer service and retail sales. The Company has launched a retail sales initiative focused on increasing demand deposits and banking relationships through the use of retail sales training, incentives and direct mail solicitations. As of December 31, 2020, the initiative has resulted in an investment of $808,000, with over 6,909 net new deposit accounts with balances of $142.8 million, excluding deposit accounts opened as a result of PPP lending. Vision 2020 will enable the Company to manage the process of returning to more normal operations upon governmental authorities adopting enabling pronouncements. The Company is presently adopting a plan to shifting its operations and headquarters personnel to work less remotely, all with due consideration to the health and well-being of its personnel and customers.

The following table presents as of December 31, 2020, the Company's PPP loans approved by the SBA due to the COVID-19 pandemic:

State	Counties	Number of Loans	Aggregate Amount of Loans	Median Amount of Loans	Average Amount of Loans	No. of Jobs Affected
			(Dollars in Thousands)			
New York	Kings	125	$ 39,353	$ 21	$ 315	3,553
	Bronx	208	14,860	13	71	2,177
	Queens	220	10,523	18	48	1,651
	New York	169	8,261	15	49	1,196
	Nassau	47	2,283	14	49	312
	Westchester	39	1,540	13	39	242
	Suffolk	18	640	17	36	105
	Richmond	10	570	12	57	124
	Albany	1	129	129	129	11
	Rockland	2	52	26	26	3
	Dutchess	2	38	19	19	6
	Sullivan	2	15	8	8	4
	Ulster	1	6	6	6	1
	Greene	1	20	20	20	2
	Total New York	845	$ 78,290	$ 16	$ 93	9,387
New Jersey	Monmouth	9	$ 2,060	46	229	401
	Essex	11	1,676	137	152	381
	Hudson	22	1,079	18	49	227
	Passaic	8	581	14	73	140
	Union	11	386	25	35	82
	Bergen	11	314	27	29	76
	Morris	5	259	24	52	66
	Middlesex	3	22	6	7	4
	Burlington	1	21	21	21	1
	Mercer	1	38	38	38	9
	Clark	1	39	39	39	7
	Ocean	1	9	9	9	1
	Total New Jersey	84	$ 6,484	$ 24	$ 77	1,395
Indiana	Lake	17	$ 239	10	14	64
California	Los Angeles	1	164	164	164	45
Nevada	Clark	2	45	23	23	2
Illinois	Cook	2	31	15	16	10
Rhode Island	Providence	1	25	25	25	5
Connecticut	Fairfield	3	31	9	10	3
North Carolina	Forsyth	1	26	27	26	4
Kentucky	Jefferson	1	5	5	5	3
	Total	957	$ 85,340	$ 17	$ 89	10,918

Comparison of Financial Condition at December 31, 2020 and December 31, 2019

Total Assets. Total consolidated assets increased $301.4 million, or 28.6%, to $1.4 billion at December 31, 2020 from $1.1 billion at December 31, 2019. The increase in total assets is attributable to increases in net loans receivable of $202.9 million, including $85.3 million in PPP loans, cash and cash equivalents of $44.4 million, mortgage loans held for sale, at fair value, of $34.4 million, other assets of $11.0 million, accrued interest receivable of $7.4 million, placements with banks of $2.7 million, held-to-maturity securities of $1.7 million, deferred taxes of $932,000 and FHLBNY stock of $691,000. The increase in total assets was reduced by decreases in available-for-sale securities of $4.0 million and premises and equipment, net, of $701,000.

Mortgage World Total Assets. Mortgage World's total assets at December 31, 2020 was $38.4 million, primarily consisting of mortgage loans held for sale, at fair value, of $34.4 million, other assets of $1.9 million, cash and cash equivalents of $1.8 million, premises and equipment, net, of $269,000, and net loans receivable of $40,000.

Cash and Cash Equivalents. Cash and cash equivalents increased $44.4 million, or 160.4%, to $72.1 million at December 31, 2020, compared to $27.7 million at December 31, 2019. The increase in cash and cash equivalents was primarily the result of increases of $247.5 million in net deposits, of which $43.5 million is related to net PPP funding, $20.8 million in advances of warehouse lines of credit related to Mortgage World, $17.8 million in maturities and/or calls of available-for-sale securities, $12.9 million in net advances from FHLBNY and a $4.7 million in proceeds from the sale of real property. The increase in cash and cash equivalents was offset by increases of $209.4 million in net loans receivable, including $85.3 million in PPP loans, $23.8 million of mortgage loans held for sale, at fair value related to Mortgage World, $13.6 million in purchases of available-for-sale securities, $4.7 million in purchases of shares held as treasury stock, $2.7 million in placement with banks, $1.9 million in purchases of premises and equipment, $1.7 million in held-to-maturity securities and $1.0 million, net of cash acquired, related to the acquisition of Mortgage World.

Securities. The composition of securities at December 31, 2020 and 2019 and the amounts maturing of each classification are summarized as follows:

	December 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities:				
Amounts maturing:				
Three months or less	$ —	$ —	$ 2,000	$ 2,000
More than three months through one year	—	—	14,373	14,354
More than one year through five years	—	—	—	—
More than five years through ten years	—	—	—	—
	—	—	16,373	16,354
Corporate Bonds:				
Amounts maturing:				
Three months or less	—	—	—	—
More than three months through one year	—	—	—	—
More than one year through five years	2,651	2,728	—	—
More than five years through ten years	7,730	7,735	—	—
	10,381	10,463	—	—
Mortgage-Backed Securities	6,970	7,035	5,162	5,150
Total available-for-sale securities	$ 17,351	$ 17,498	$ 21,535	$ 21,504
Held-to-Maturity Securities:				
Mortgage-Backed Securities	$ 1,743	$ 1,722	$ —	$ —
Total held-to-maturity securities	$ 1,743	$ 1,722	$ —	$ —

Gross Loans Receivable. The composition of gross loans receivable at December 31, 2020 and 2019 and the percentage of each classification to total loans are summarized as follows:

	December 31, 2020		December 31, 2019		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Dollars	Percent
	(Dollars in thousands)					
Mortgage loans:						
1-4 Family residential						
Investor-Owned	$ 319,596	27.3%	$ 305,272	31.6%	$ 14,324	4.7%
Owner-Occupied	98,795	8.4%	91,943	9.5%	6,852	7.5%
Multifamily residential	307,411	26.2%	250,239	25.9%	57,172	22.8%
Nonresidential properties	218,929	18.7%	207,225	21.4%	11,704	5.6%
Construction and land	105,858	9.0%	99,309	10.3%	6,549	6.6%
Total mortgage loans	1,050,589	89.6%	953,988	98.7%	96,601	10.1%
Nonmortgage loans:						
Business loans (1)	94,947	8.1%	10,877	1.1%	84,070	*
Consumer loans (2)	26,517	2.3%	1,231	0.2%	25,286	*
Total nonmortgage loans	121,464	10.4%	12,108	1.3%	109,356	*
Total gross loans	$ 1,172,053	100.0%	$ 966,096	100.0%	$ 205,957	21.3%

* Indicates more than 200%.

(1) As of December 31, 2020, business loans include $85.3 million of PPP loans.

(2) As of December 31, 2020, consumer loans include $25.5 million of loans originated by the Bank pursuant to its arrangement with Grain.

The increase in the composition of the loan portfolio was aided by $85.3 million related to PPP loans at December 31, 2020 when compared to December 31, 2019. Based on current internal loan reviews, the Company remains confident that the quality of our underwriting, our weighted average loan-to-value ratio of 56.1% and our customer selection processes have served us well and provided us with a reliable base with which to maintain a well-protected loan portfolio.

Commercial real estate mortgage loans, as defined by applicable banking regulations, include multifamily residential, nonresidential properties, and construction and land mortgage loans. At December 31, 2020, approximately 7.9% of the outstanding principal balance of the Bank's commercial real estate mortgage loans was secured by owner-occupied commercial real estate, compared to 8.0% at December 31, 2019. Owner-occupied commercial real estate is similar in many ways to commercial and industrial lending in that these loans are generally made to businesses predominantly on the basis of the cash flows of the business rather than on cash flows and valuation of the real estate.

Through December 31, 2020, 412 loans aggregating $380.3 million had requested forbearance primarily consisting of the deferral of principal, interest, and escrow payments for a period of three months. Of those 412 loans, 339 loans aggregating $306.4 million are no longer in deferment and continue performing and 73 loans in the amount of $73.8 million remained in deferment. Of the 73 loans in deferment, 72 loans in the amount of $73.5 million are in renewed forbearance and one loan in the amount of $297,000 is in its initial forbearance. All of these loans had been performing in accordance with their contractual obligations prior to the granting of the initial forbearance. The Company actively monitors the business activities of borrowers in forbearance and seeks to determine their capacity to resume payments as contractually obligated upon the termination of the forbearance period. The initial and extended forbearances are short-term modifications made on a good faith basis in response to the COVID-19 pandemic and in furtherance of governmental policies.

The following table presents the loans modified as a result of the COVID-19 pandemic through December 31, 2020:

	Number of Loans	Loan Amount	Weighted Average Loan-to-Value	Percentage of Total Modifications
	(Dollars in Thousands)			
Mortgage loans:				
1-4 Family residential				
Investor-Owned	186	$ 130,547	61.6%	45.1%
Owner-Occupied	65	35,591	50.0%	15.8%
Multifamily residential	61	74,630	49.0%	14.8%
Nonresidential properties	81	97,040	47.9%	19.7%
Construction and land	7	41,147	57.8%	1.7%
Nonmortgage loans:				
Business loans	7	1,230	0.0%	1.7%
Consumer loans	5	80	0.0%	1.2%
Total	412	$ 380,265	53.9%	100.0%

Banking regulations have established guidelines relating to the amount of construction and land mortgage loans and investor-owned commercial real estate mortgage loans of 100% and 300% of total risk-based capital, respectively. Should a bank's ratios be in excess of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by the bank's management. The Bank's policy is to operate within the 100% guideline for construction and land mortgage loans and up to 400% for investor-owned commercial real estate mortgage loans. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by the Bank's total risk-based capital. At December 31, 2020 and 2019, the Bank's construction and land mortgage loans as a percentage of total risk-based capital was 68.3% and 67.4%, respectively. Investor-owned commercial real estate mortgage loans as a percentage of total risk-based capital was 379.8% and 349.7% as of December 31, 2020 and 2019, respectively. At December 31, 2020, the Bank was within the 100% ratio for construction and land mortgage loans established by banking guidelines, but exceeded the 300% guideline for investor-owned commercial real estate mortgage loans. However, the Bank was within its 400% policy limit established by the Bank's internal loan policy. Management believes that it has established the appropriate level of controls to monitor the Bank's lending in these areas.

Mortgage Loans Held For Sale. Mortgage loans held for sale, at fair value, at December 31, 2020 increased $34.4 million to $35.4 million from $ 1.0 million at December 31, 2019. The increase was related to the acquisition of Mortgage World.

Deposits. The composition of deposits at December 31, 2020 and 2019 and changes in dollars and percentages are summarized as follows:

	December 31, 2020		December 31, 2019		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Dollars	Percent
			(Dollars in thousands)			
Demand (1)	$ 189,855	18.5%	$ 109,548	14.0%	$ 80,307	73.3%
Interest-bearing deposits:						
NOW/IOLA accounts	39,296	3.8%	32,866	4.2%	6,430	19.6%
Money market accounts	136,258	13.2%	86,721	11.1%	49,537	57.1%
Reciprocal deposits	131,363	12.8%	47,659	6.1%	83,704	175.6%
Savings accounts	125,820	12.2%	115,751	14.8%	10,069	8.7%
Total NOW, money market, reciprocal and savings	432,737	42.0%	282,997	36.2%	149,740	52.9%
Certificates of deposit of $250K or more	78,435	7.6%	84,263	10.8%	(5,828)	(6.9%)
Brokered certificates of deposit (2)	52,678	5.1%	76,797	9.8%	(24,119)	(31.4%)
Listing service deposits (2)	39,476	3.8%	32,400	4.1%	7,076	21.8%
All other certificates of deposit less than $250K	236,398	23.0%	196,038	25.1%	40,360	20.6%
Total certificates of deposit	406,987	39.5%	389,498	49.8%	17,489	4.5%
Total interest-bearing deposits	839,724	81.5%	672,495	86.0%	167,229	24.9%
Total deposits	$ 1,029,579	100.0%	$ 782,043	100.0%	$ 247,536	31.7%

(1) As of December 31, 2020, included in demand deposits are $43.5 million related to net PPP funding.

(2) There were $27.0 million in individual brokered certificates of deposit or listing service deposits amounting to $250,000 or more.

When wholesale funding is necessary to complement the Company's core deposit base, management determines which source is best suited to address both liquidity risk and interest rate risk in line with management objectives. The Company's Interest Rate Risk Policy imposes limitations on overall wholesale funding and noncore funding reliance. The overall reliance on wholesale funding and noncore funding were within those policy limitations as of December 31, 2020 and 2019. The Management Asset/Liability Committee generally meets on a weekly basis to review needs, if any, and to ensure that the Company is operating within the approved limitations.

Advances from FHLBNY. The Bank had outstanding borrowings at December 31, 2020 and 2019 of $117.3 million and $104.4 million, respectively. These borrowings are in the form of advances from the FHLBNY.

Warehouse Lines of Credit. Mortgage World maintains two warehouse lines of credit totaling $34.9 million with financial institutions for the purpose of funding the origination and sale of residential mortgages. At December 31, 2020, Mortgage World utilized $30.0 million for funding of mortgage loans held for sale.

Stockholders' Equity. The Company's consolidated stockholders' equity increased $1.1 million, or 0.7%, to $159.5 million at December 31, 2020, from $158.4 million at December 31, 2019. The $1.1 million increase in stockholders' equity was mainly attributable to $3.9 million in net income, $1.4 million related to restricted stock units and stock options, $482,000 related to the Company's Employee Stock Ownership Plan and $115,000 related to unrealized gains on available-for-sale securities, offset by $4.7 million in stock repurchases.

Mortgage World Stockholder's Equity. Mortgage World stockholders' equity at December 31, 2020 was $5.3 million primarily consisted of $3.5 million in paid-in capital and $1.8 million in net income.

Results of Operations

The discussion of the Company's results of operations for the years ended December 31, 2020, 2019 and 2018 are presented below. Included in the results of operations of the Company are the results of operations of Mortgage World from July 10, 2020 through December 31, 2020. The results of operations may not be indicative of future results.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2020 and 2019

The following table presents the consolidated results of operations for the periods indicated:

	For the Years Ended December 31,		Increase (Decrease)	
	2020	2019	Dollars	Percent
	(Dollars in thousands, except per share data)			
Interest and dividend income	$ 53,339	$ 50,491	$ 2,848	5.6%
Interest expense	11,369	12,358	(989)	(8.0%)
Net interest income	41,970	38,133	3,837	10.1%
Provision for loan losses	2,443	258	2,185	*
Net interest income after provision for loan losses	39,527	37,875	1,652	4.4%
Noninterest income	13,247	2,683	10,564	393.7%
Noninterest expense	47,539	46,607	932	2.0%
Income (loss) before income taxes	5,235	(6,049)	11,284	186.5%
Provision (benefit) for income taxes	1,382	(924)	2,306	249.6%
Net income (loss)	$ 3,853	$ (5,125)	$ 8,978	175.2%
Earnings (loss) per share for the period				
Basic	$ 0.23	$ (0.29)	$ 0.52	179.7%
Diluted	$ 0.23	$ (0.29)	$ 0.52	179.7%

*Exceed 500%

General. Consolidated net income for the year ended December 31, 2020, was $3.9 million compared to a net loss of ($5.1 million) for the year ended December 31, 2019. The change in net income reflects a $10.6 million, or 393.7%, increase in non-interest income, mainly as a result of a $4.2 million gain, net of expenses, on the sale of real property and $6.2 million of non-interest income attributable to Mortgage World operations. Net income was also impacted by a $2.8 million, or 5.6%, increase in interest and dividend income, a $989,000, or 8.0%, decrease in interest expense, offset by a $2.3 million increase in provision for income taxes, a $2.2 million increase in provision for loan losses in response to the COVID-19 pandemic and a $932,000, or 2.0%, increase in non-interest expense.

Mortgage World’s net income from July 10, 2020 through December 31, 2020 was $1.8 million, attributable to $6.2 million in non-interest income and $274,000 in interest and dividend income, offset by $3.9 million in non-interest expense, $521,000 in provision for income taxes and $250,000 in interest expense.

Interest and Dividend Income. Interest and dividend income increased $2.8 million, or 5.6%, to $53.3 million for the year ended December 31, 2020, from $50.5 million for the year ended December 31, 2019. The increase was primarily due to a $3.1 million, or 6.3%, increase in interest income on loans, which is our primary source of interest income, offset by a decrease of $235,000 of other interest and dividend income. Average loan balances increased $122.6 million, or 13.0%, to $1.1 billion for the year ended December 31, 2020 from $946.2 million for the year ended December 31, 2019. The increase in average loan balances was mainly driven by increases in business loans, of which $50.6 million related to PPP loans, multifamily residential loans, one-to-four family residential loans, nonresidential loans, and construction and land mortgage loans. The average yield on loans decreased 31 basis points to 4.90% for the year ended December 31, 2020 from 5.21% for the year ended December 31, 2019.

The following table presents interest income on loans for the periods indicated:

	For the Years Ended December 31,		Change	
	2020	2019	Amount	Percent
	(Dollars in thousands)			
1-4 Family residential	$ 20,538	$ 20,339	$ 199	1.0%
Multifamily residential	12,990	12,053	937	7.8%
Nonresidential properties	9,838	9,621	217	2.3%
Construction and land	6,827	6,374	453	7.1%
Business loans	1,727	824	903	109.6%
Consumer loans	469	95	374	393.7%
Total interest income on loans receivable	$ 52,389	$ 49,306	$ 3,083	6.3%

Interest income on deposits due from banks and available-for-sale securities and dividend income from FHLBNY stock decreased $235,000, or 19.8%, to $950,000 for the year ended December 31, 2020 from $1.2 million for the year ended December 31, 2019. The average balance of deposits due from banks, available-for-sale securities and FHLBNY stock increased $9.9 million, or 16.4%, to $70.2 million for the year ended December 31, 2020, from $60.3 million for the year ended December 31, 2019. The average rate earned on deposits due from banks, available-for-sale securities and FHLBNY stock decreased 62 basis points to 1.35% for the year ended December 31, 2020 from 1.97% for the year ended December 31, 2019.

The following table presents interest and dividend income on deposits due from banks, available-for-sale securities and FHLBNY stock for the periods indicated:

	For the Years Ended December 31,		Change	
	2020	2019	Amount	Percent
	(Dollars in thousands)			
Interest on deposits due from banks	$ 84	$ 617	$ (533)	(86.4%)
Interest on available-for-sale securities	515	362	153	42.3%
Dividend on FHLBNY stock	351	206	145	70.4%
Total interest and dividend income	$ 950	$ 1,185	$ (235)	(19.8%)

Interest Expense. Interest expense decreased $989,000, or 8.0%, to $11.4 million for the year ended December 31, 2020, from $12.4 million for the year ended December 31, 2019.

Interest expense on certificates of deposit decreased $1.1 million, or 14.3%, to $6.6 million for the year ended December 31, 2020 from $7.7 million for the year ended December 31, 2019. The average balance on certificates of deposit decreased $23.7 million, or 5.9%, to $379.3 million for the year ended December 31, 2020 from $403.0 million for the same period last year, and the average rate the Bank paid on certificates of deposit decreased 17 basis points to 1.73% for the year ended December 31, 2020 from 1.90% for the same period in 2019.

Interest expense on money market accounts decreased $680,000, or 26.7%, to $1.9 million for the year ended December 31, 2020 from $2.5 million for the year ended December 31, 2019. The average balance of money market accounts increased $82.7 million, or 66.3%, to $207.5 million for the year ended December 31, 2020 from $124.7 million for the same period last year, while the average rate paid on money market accounts decreased 114 basis points to 0.90% for the year ended December 31, 2020 from 2.04% for the year ended December 31, 2019.

Interest expense on borrowings increased $765,000, or 41.3%, to $2.6 million for the year ended December 31, 2020 from $1.9 million for the year ended December 31, 2019. The average balance on borrowings increased $43.6 million, or 56.1%, to $121.2 million for the year ended December 31, 2020 from $77.6 million for the same period last year, and the average rate the Bank paid on borrowings decreased 23 basis points to 2.16% for the year ended December 31, 2020 from 2.39% for the same period in 2019.

The following table presents interest expense for the periods indicated:

	For the Years Ended December 31,		Change	
	2020	2019	Amount	Percent
	(Dollars in thousands)			
Certificates of deposit	$ 6,576	$ 7,677	$ (1,101)	(14.3%)
Money market	1,869	2,549	(680)	(26.7%)
Savings	148	152	(4)	(2.6%)
NOW/IOLA	153	122	31	25.4%
Advance payments by borrowers	4	4	—	0.0%
Borrowings	2,619	1,854	765	41.3%
Total interest expense	$ 11,369	$ 12,358	$ (989)	(8.0%)

Net Interest Income. Net interest income increased $3.8 million, or 10.1%, to $42.0 million for the year ended December 31, 2020 from $38.1 million for the year ended December 31, 2019, primarily as a result of organic loan growth and lower average cost of funds on interest bearing liabilities. Average net interest-earning assets increased by $28.3 million, or 11.6%, to $273.8 million for the year ended December 31, 2020 from $245.4 million for the same period in 2019, due primarily to increases of $122.6 million in average loans and mortgage loans held for sale, $18.2 million in FHLBNY demand account and FHLBNY stock dividends, a decrease of $23.7 million in average certificates of deposit, offset by increases of $82.7 million in average money market accounts, $43.6 million in average borrowings and a decrease of $8.3 million in average securities. The net interest rate spread decreased by 3 basis points to 3.37% for the year ended December 31, 2020 from 3.40% for the year ended December 31, 2019, and the net interest margin decreased by 10 basis points to 3.69% from 3.79% for the years ended December 31, 2020 and 2019, respectively.

Management continues to deploy various asset and liability management strategies to manage the Company's risk of interest rate fluctuations. Net interest margin decreased 10 basis points for the year ended December 31, 2020, to 3.69% from 3.79% for the year ended December 31, 2019, reflecting that pricing for creditworthy borrowers and meaningful depositors remained very competitive and evidencing the effect of the COVID-19 pandemic. The Federal Reserve Board reduced the federal funds interest rate by an aggregate of 225 basis points during the second half of 2019 and the first quarter of 2020. The 2020 rate cuts were in response to severe market turmoil as a result of the onset of the COVID-19 pandemic. The Federal Reserve Board has stated that its federal funds interest rate policy will remain accommodative at least through 2023. However, in the event that short-term interest rates were to be cut further in 2021 or beyond, the Company's net interest margin will likely be negatively impacted as management's ability to lower funding costs on interest-bearing deposits would more than likely not exceed the pace with which further cuts would impact the Company's yields on its earning assets.

Although it could be anticipated that the Bank's net interest margin may further decrease in 2021, management believes net interest income may continue to increase compared to 2020 primarily due to increased average earning asset volumes, primarily loans. Management will continue to seek to fund these increased loan volumes by growing its core deposits, but will utilize funding alternatives, as needed.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish ALLL that, in management's opinion, should be adequate to provide coverage for the inherent losses on outstanding loans.

In evaluating the level of the ALLL, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See Note 1, "Nature of Business and Summary of Significant Accounting Policies —Allowance for Loan Losses" of the Notes to the accompanying Consolidated Financial Statements for additional information.

After an evaluation of these factors, the Bank established a provision for loan losses for the year ended December 31, 2020 of $2.4 million compared to $258,000 for the year ended December 31, 2019. The Bank's assessment of the economic impact of the COVID-19 pandemic on borrowers indicated that it would likely be a detriment to their ability to repay in the short-term and that the likelihood of long-term detrimental effects depends significantly on the resumption of normalized economic activities, a factor not yet determinable.

The increase of $2.2 million in provision of loan losses was primarily driven by increases of $1.3 million in multifamily residential, $658,000 in 1-4 family investor owned residential mortgage, $426,000 in nonresidential properties, $334,000 in 1-4 family owner-occupied residential mortgage and $270,000 in consumer loans offset by decreases of $703,000 in business loans and $113,000 in construction and land. The ALLL was $14.9 million, or 1.27% of total loans, at December 31, 2020, compared to $12.3 million, or 1.28% of total loans, at December 31, 2019. Excluding $85.3 million in PPP loans, the ALLL at December 31, 2020 would have been 1.37% of total loans.

Factoring in the uncertainty about the COVID-19 pandemic and to the best of management's knowledge, the Bank recorded all loan losses that are both probable and reasonably expected. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to the Bank's loan portfolio, could result in material increases in the Bank's provision for loan losses. In addition, the OCC, as an integral part of its examination process, periodically reviews the Bank's allowance for loan losses and as a result of such reviews, the Bank may determine to adjust the ALLL. However, regulatory agencies are not directly involved in establishing the ALLL as the process is management's responsibility and any increase or decrease in the allowance is the responsibility of management. The Bank has selected the CECL model and has begun running scenarios. The extent of the change to ALLL is indeterminable at this time as it will be dependent upon the portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. The Company is taking advantage of the extended transition period for complying with this new accounting standard. Assuming it remains a smaller reporting company, the Bank will adopt the CECL standard for fiscal years beginning after December 15, 2022. See Note 1, "Nature of Business and Summary of Significant Accounting Policies" of the Notes to the accompanying Consolidated Financial Statements for a discussion of the CECL standard.

Non-interest Income. Consolidated non-interest income increased $10.6 million, to $13.2 million for the year ended December 31, 2020 from $2.7 million for the year ended December 31, 2019. The increase in non-interest income for the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to a $4.2 million gain, net of expenses, on the sale of real property, combined with $6.2 million in gain on sale of mortgage loans, loan origination fees, brokerage commissions and other non-interest income attributable to Mortgage World operations. The increase in non-interest income also was the result of $429,000 in other non-interest income and $228,000 in brokerage commissions related to the Bank, offset by decreases of $397,000 in late and prepayment charges related to mortgage loans and $79,000 in service charges and fees related to the Bank.

Mortgage World's non-interest income from July 10, 2020 through December 31, 2020 was $6.2 million, consisting of $4.1 million in income on sale of mortgage loans, $925,000 in loan origination fees, $627,000 in other non-interest income and $535,000 in brokerage commissions.

The following table presents non-interest income for the periods indicated:

	For the Years Ended December 31,		Change	
	2020	2019	Amount	Percent
	(Dollars in thousands)			
Service charges and fees	$ 892	$ 971	$ (79)	(8.1%)
Brokerage commissions	974	212	762	359.4%
Late and prepayment charges	358	755	(397)	(52.6%)
Income on sale of mortgage loans	4,120	—	4,120	—%
Loan origination	925	—	925	—%
Gain on sale of real property	4,177	—	4,177	—%
Other	1,801	745	1,056	141.7%
Total non-interest income	$ 13,247	$ 2,683	$ 10,564	393.7%

Non-interest Expense. Consolidated non-interest expense increased $932,000, or 2.0%, to $47.5 million for the year ended December 31, 2020, compared to $46.6 million for the year ended December 31, 2019. The increase in non-interest expense was primarily attributable to $3.9 million in non-interest expense related to Mortgage World operations, of which $2.3 million was related to compensation and benefits. The remainder of the increases in non-interest expense attributable to the Bank were $2.8 million in professional fees, $1.6 million in occupancy and equipment expense due to new software licenses and security services, $838,000 in compensation and benefits, $686,000 in other operating expenses mainly due to employment agency fees and collection fees, $544,000 in data processing expenses as a result of system enhancements and implementation charges related to new software upgrades and $319,000 in marketing and promotional expenses attributable to the Bank. The increases in non-interest expense were offset by the absence of the non-recurring $9.9 million loss on the termination of the pension plan related to the Bank, recognized in the fourth quarter of 2019. The increase of $2.8 million attributable to the Bank in professional fees was mainly attributable to increases in consulting fees of $1.8 million and professional services of $1.0 million related to the document imaging project adopted in late 2019. Included in non-interest expense for the year ended December 31, 2020 was $1.1 million of expenses incurred as a result of the COVID-19 pandemic. Excluding the impact of the $3.9 million in non-interest expense related to Mortgage World for the year ended December 31, 2020 and the $9.9 million loss on termination of pension plan related to the Bank recognized in the fourth quarter of 2019, total non-interest expense would have increased $7.0 million, or 19.0%, to $43.7 million for the year ended December 31, 2020 compared to $36.7 million for the year ended December 31, 2019.

Mortgage World's non-interest expense from July 10, 2020 through December 31, 2020 was $3.9 million, consisting primarily of $2.3 million in compensation and benefits, $792,000 in direct loan expenses, $322,000 in occupancy and equipment and $279,000 in other operating expenses.

The following table presents non-interest expense for the periods indicated.

	For the Years Ended December 31, 2020	2019	Change Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 22,053	$ 18,883	$ 3,170	16.8%
Loss on termination of pension plan	—	9,930	(9,930)	(100.0%)
Occupancy and equipment	9,564	7,612	1,952	25.6%
Data processing expenses	2,137	1,576	561	35.6%
Direct loan expenses	1,447	692	755	109.1%
Insurance and surety bond premiums	553	414	139	33.6%
Office supplies, telephone and postage	1,399	1,185	214	18.1%
Professional fees	6,049	3,237	2,812	86.9%
Marketing and promotional expenses	488	158	330	208.9%
Directors fees	276	294	(18)	(6.1%)
Regulatory dues	210	231	(21)	(9.1%)
Other operating expenses	3,363	2,395	968	40.4%
Total non-interest expense	$ 47,539	$ 46,607	$ 932	2.0%

Income Tax Expense. Consolidated income tax expense was $1.4 million for the year ended December 31, 2020 and ($924,000) in income tax benefit for the year ended December 31, 2019, resulting in effective tax rates of 26.4% and 15.3%, respectively. At December 31, 2020 and 2019, net deferred tax assets amounted to $4.7 million and $3.7 million, respectively.

Comparison of Operating Results for the Years Ended December 31, 2019 and 2018

The following table presents the consolidated results of operations for the periods indicated:

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018	Increase (Decrease) Dollars	Increase (Decrease) Percent
	(Dollars in thousands, except per share data)			
Interest and dividend income	$ 50,491	$ 46,156	$ 4,335	9.4%
Interest expense	12,358	9,490	2,868	30.2%
Net interest income	38,133	36,666	1,467	4.0%
Provision for loan losses	258	1,249	(991)	(79.3%)
Net interest income after provision for loan losses	37,875	35,417	2,458	6.9%
Noninterest income	2,683	2,938	(255)	(8.7%)
Noninterest expense	46,607	34,557	12,050	34.9%
Income (loss) before income taxes	(6,049)	3,798	(9,847)	(259.3%)
Provision (benefit) for income taxes	(924)	1,121	(2,045)	(182.4%)
Net income (loss)	$ (5,125)	$ 2,677	$ (7,802)	(291.4%)
Earnings (loss) per share for the period				
Basic	$ (0.29)	$ 0.15	$ (0.44)	(293.3%)
Diluted	$ (0.29)	$ 0.15	$ (0.44)	(293.3%)

General. Consolidated net loss for the year ended December 31, 2019, was ($5.1 million) compared to a net income of $2.7 million for the year ended December 31, 2018. The decrease was primarily attributable to an increase of $12.1 million in noninterest expense, mainly due to a $9.9 million ($7.8 million, net of tax effect) loss incurred from the termination of the Company's Defined Benefit Plan, and a decrease of $255,000 in non-interest income offset by an increase of $2.5 million in net interest income after the provision for loan losses and a decrease of $2.0 million in provision for income taxes. Excluding the one-time charge, the Company would have reported net income of $2.7 million, or $0.16 per share.

Interest and Dividend Income. Interest and dividend income increased $4.3 million, or 9.4%, to $50.5 million for the year ended December 31, 2019, from $46.2 million for the year ended December 31, 2018. The increase was primarily due to a $4.4 million, or 9.7%, increase in interest income on loans, which is our primary source of interest income, offset by a decrease of $0.1 million of other interest and dividend income. Average loan balances increased $79.1 million, or 9.0%, to $946.2 million for the year ended December 31, 2019 from $867.0 million for the year ended December 31, 2018. The increase in average loan balances was mainly driven by increases in the multifamily residential, nonresidential, one-to-four family residential, and construction and land mortgage loan portfolios. The average yield on loans increased 3 basis point to 5.21% for the year ended December 31, 2019 from 5.18% for the year ended December 31, 2018.

The following table presents interest income on loans receivable for the periods indicated:

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018	Change Amount	Change Percent
	(Dollars in thousands)			
1-4 Family residential	$ 20,339	$ 19,799	$ 540	2.7%
Multifamily residential	12,053	10,699	1,354	12.7%
Nonresidential properties	9,621	8,485	1,136	13.4%
Construction and land	6,374	5,042	1,332	26.4%
Business loans	824	852	(28)	(3.3%)
Consumer loans	95	71	24	33.8%
Total interest income on loans receivable	$ 49,306	$ 44,948	$ 4,358	9.7%

Interest income on deposits due from banks and available-for-sale securities and dividend income from FHLBNY stock remained unchanged at $1.2 million for the years ended December 31, 2019 and 2018. The average balance of deposits due from banks, available-for-sale securities and FHLBNY stock decreased $9.1 million, or 13.1%, to $60.3 million for the year ended December 31, 2019, from $69.4 million for the year ended December 31, 2018. The average rate earned on deposits due from banks, available-for-sale securities and FHLBNY stock increased 23 basis points to 1.97% for the year ended December 31, 2019 from 1.74% for the year ended December 31, 2018.

The following table presents interest and dividend income on deposits due from banks, available-for-sale securities and FHLBNY stock for the periods indicated:

	For the Years Ended December 31,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Interest on deposits due from banks	$ 617	$ 679	$ (62)	(9.1%)
Interest on available-for-sale securities	362	381	(19)	(5.0%)
Dividend on FHLBNY stock	206	148	58	39.2%
Total interest and dividend	$ 1,185	$ 1,208	$ (23)	(1.9%)

Interest Expense. Interest expense increased $2.9 million, or 30.2%, to $12.4 million for the year ended December 31, 2019, from $9.5 million for the year ended December 31, 2018. Interest expense on money market accounts increased $1.8 million to $2.5 million for the year ended December 31, 2019 from $701,000 for the same period in 2018. The average balance of money market accounts increased $64.6 million to $124.7 million for the year ended December 31, 2019 from $60.1 million for the same period last year, while the average rate paid on money market accounts increased 87 basis points to 2.04% for the year ended December 31, 2019 from 1.17% for the year ended December 31, 2018.

Interest expense on certificates of deposit remained essentially unchanged at $7.6 million for the years ended December 31, 2019 and 2018. The average balance on certificates of deposit decreased $36.7 million, or 8.4%, to $403.0 million for the year ended December 31, 2019 from $439.7 million for the same period last year, and the average rate the Bank paid on certificates of deposit increased 17 basis points to 1.90% for the year ended December 31, 2019 from 1.73% for the same period in 2018.

Interest expense on borrowings increased $955,000, or 106.2%, to $1.9 million for the year ended December 31, 2019 from $899,000 for the year ended December 31, 2018. The average balance on borrowings increased $42.7 million, or 122.5%, to $77.6 million for the year ended December 31, 2019 from $34.9 million for the same period last year, and the average rate the Bank paid on borrowings decreased 19 basis points to 2.39% for the year ended December 31, 2019 from 2.58% for the same period in 2018.

Increased funding costs were primarily driven by management’s efforts to retain high balance customers in higher yielding liquid deposits and higher market interest rates being offered by the Bank’s competitors, combined with a resulting shift towards alternative funding during the year ended December 31, 2019.

The following table presents interest expense for the periods indicated:

	For the Years Ended December 31,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Certificates of deposit	$ 7,677	$ 7,617	$ 60	0.8%
Money market	2,549	701	1,848	263.6%
Savings	152	168	(16)	(9.5%)
NOW/IOLA	122	102	20	19.6%
Advance payments by borrowers	4	3	1	33.3%
Borrowings	1,854	899	955	106.2%
Total interest expense	$ 12,358	$ 9,490	$ 2,868	30.2%

Net Interest Income. Net interest income increased $1.5 million, or 4.0%, to $38.1 million for the year ended December 31, 2019 from $36.7 million for the year ended December 31, 2018, primarily as a result of organic loan growth offset by higher average cost of funds on interest bearing liabilities. Average net interest-earning assets increased by $5.1 million, or 2.1%, to $245.4 million for the year ended December 31, 2019 from $240.3 million for the same period in 2018, due primarily to increases of $64.6 million in average money market accounts and $42.7 million in borrowings offset by a decrease of $36.7 million in certificates of deposit and an increase of $79.1 million in loans. The net interest rate spread decreased by 17 basis points to 3.40% for the year ended December 31, 2019 from 3.57% for the year ended December 31, 2018, and the net interest margin was 3.79% and 3.92% for the years ended December 31, 2019 and 2018, respectively. The compression on the net interest margin was primarily caused by organic loan growth being offset by higher market interest rates due to increased competition for deposits and increased funding costs attributed to increased alternative funding.

Management continued to deploy various asset and liability management strategies to manage the Bank's risk of interest rate fluctuations. Net interest margin decreased 13 basis points in 2019, reflecting that pricing for creditworthy borrowers and meaningful depositors remained very competitive. The Federal Reserve Board reduced the federal funds interest rate by 25 basis points on each of July 31, September 18, and October 30, 2019. Further, on March 3, 2020, and March 15, 2020, the Federal Reserve Board, in emergency actions, decreased the targeted federal funds rate by an aggregate of 150 basis points. These rate cuts were in response to severe market turmoil. As a result of these rate cuts and in the event that short-term interest rates were to be cut further in 2020 or beyond, the Bank's net interest margin will likely be negatively impacted as management's ability to lower funding costs on interest-bearing deposits would more than likely not exceed the pace with which these cuts would impact the Bank's yields on its earning assets. Although it could be anticipated that the Bank's net interest margin may continue to decrease in 2021, we believe net interest income should continue to increase compared to 2020 primarily due to increased average earning asset volumes, primarily loans. Management will continue to seek to fund these increased loan volumes by growing its core deposits, but will utilize funding alternatives, as needed.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish ALLL that, in management's opinion, should be adequate to provide coverage for the inherent losses on outstanding loans.

In evaluating the level of the ALLL, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic and market conditions and other qualitative and quantitative factors which could affect potential credit losses. See "—Summary of Significant Accounting Policies" and "Business—Allowance for Loan and Lease Losses" for additional information.

After an evaluation of these factors, the Bank established a the provision for loan losses for the year ended December 31, 2019 of $258,000, compared to $1.2 million for the year ended December 31, 2018.

The ALLL was $12.3 million at December 31, 2019 compared to $12.7 million at December 31, 2018. The allowance for loan losses to gross loans decreased to 1.28% at December 31, 2019 from 1.36% at December 31, 2018.

To the best of management's knowledge, the Bank recorded all loan losses that are both probable and reasonably expected. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to the Bank's loan portfolio, could result in material increases in the Bank's provision for loan losses. In addition, the OCC, as an integral part of its examination process, periodically reviews the Bank's allowance for loan losses and as a result of such reviews, the Bank may determine to adjust the allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is management's responsibility and any increase or decrease in the allowance is the responsibility of management.

Non-interest Income. Total non-interest income decreased $255,000, or 8.7%, to $2.7 million for the year ended December 31, 2019 from $2.9 million for the year ended December 31, 2018. The decrease in non-interest income for the year ended December 31, 2019 compared to the year ended December 31, 2018 was primarily due to decreases of $530,000 in brokerage commissions and other non-interest income offset by increases of $275,000 in late and prepayment charges and service charges and fees.

The following table presents non-interest income for the periods indicated:

	For the Years Ended December 31, 2019	2018	Change Amount	Percent
	(Dollars in thousands)			
Service charges and fees	$ 971	$ 845	$ 126	14.9%
Brokerage commissions	212	533	(321)	(60.2%)
Late and prepayment charges	755	606	149	24.6%
Other	745	954	(209)	(21.9%)
Total non-interest income	$ 2,683	$ 2,938	$ (255)	(8.7%)

Non-interest Expense. Total non-interest expense increased $12.1 million, or 34.9%, to $46.6 million for the year ended December 31, 2019, compared to $34.6 million for the year ended December 31, 2018. The $12.1 million increase for the year ended December 31, 2019 compared to the year ended December 31, 2018, is primarily attributable to a one-time charge of $9.9 million for the termination of the Defined Benefit Plan, of which $7.8 million was previously recognized in accumulated other comprehensive income (loss), a $2.1 million charge-off related to the deferred tax asset associated with the Defined Benefit Plan, an increase of $944,000 in compensation and benefits expense largely as a result of expenses related to restricted stock units and stock options and an increase of $939,000 in occupancy and equipment expense due to the rebranding and branch network renovation initiatives. Other contributing factors were a $208,000 increase in other operating expenses as a result of increases in recruiting fees of $112,000 and $55,000 in expenses related to the repurchase of common shares, a $168,000 increase in data processing expenses as a result of system enhancements and implementation charges related to software upgrades and additional product offerings, a $83,000 increase in professional fees associated with public reporting requirements and a $45,000 increase in insurance and surety bond premium expense. The increase in non-interest expense was partially offset by decreases of $96,000 for direct loan expense, $124,000 for office supplies, telephone and postage and $57,000 for marketing and promotional expenses.

The following table presents non-interest expense for the periods indicated:

	For the Years Ended December 31,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 18,883	$ 17,939	$ 944	5.3%
Occupancy and equipment	7,612	6,673	939	14.1%
Loss on termination of pension plan	9,930	—	9,930	100.0%
Data processing	1,576	1,408	168	11.9%
Direct loan expense	692	788	(96)	(12.2%)
Insurance and surety bond premiums	414	369	45	12.2%
Office supplies, telephone and postage	1,185	1,309	(124)	(9.5%)
Professional fees	3,237	3,154	83	2.6%
Marketing and promotional expenses	158	215	(57)	(26.5%)
Directors fees	294	277	17	6.1%
Regulatory dues	231	238	(7)	(2.9%)
Other operating expenses	2,395	2,187	208	9.5%
Total non-interest expense	$ 46,607	$ 34,557	$ 12,050	34.9%

Income Tax Expense. The Company incurred an income tax benefit of ($924,000) for the year ended December 31, 2019 and $1.1 million in income tax expense for the year ended December 31, 2018, resulting in effective tax rates of 15.3% and 29.5%, respectively. At December 31, 2019 and 2018, net deferred tax assets amounted to $3.7 million and $3.8 million, respectively.

Average Balance Sheet

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. Average balances are derived from average daily balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Years Ended December 31,					
	2020			2019		
	Average Outstanding Balance	Interest	Average Yield/Rate	Average Outstanding Balance	Interest	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans (1)	$ 1,068,785	$ 52,389	4.90%	$ 946,159	$ 49,306	5.21%
Securities (2)	16,473	515	3.13%	24,778	362	1.46%
Other (3)	53,683	435	0.81%	35,517	823	2.32%
Total interest-earning assets	1,138,941	53,339	4.68%	1,006,454	50,491	5.02%
Non-interest-earning assets	56,415			35,504		
Total assets	$ 1,195,356			$ 1,041,958		
Interest-bearing liabilities:						
NOW/IOLA	$ 29,792	$ 153	0.51%	$ 27,539	$ 122	0.44%
Money market	207,454	1,869	0.90%	124,729	2,548	2.04%
Savings	118,956	148	0.12%	119,521	153	0.13%
Certificates of deposit	379,276	6,576	1.73%	403,010	7,677	1.90%
Total deposits	735,478	8,746	1.19%	674,799	10,500	1.56%
Advance payments by borrowers	8,463	4	0.05%	8,608	4	0.05%
Borrowings	121,193	2,619	2.16%	77,621	1,854	2.39%
Total interest-bearing liabilities	865,134	11,369	1.31%	761,028	12,358	1.62%
Non-interest-bearing liabilities:						
Non-interest-bearing demand	164,555	—		110,745	—	
Other non-interest-bearing liabilities	6,603	—		3,900	—	
Total non-interest-bearing liabilities	171,158	—		114,645	—	
Total liabilities	1,036,292	11,369		875,673	12,358	
Total equity	159,064			166,285		
Total liabilities and total equity	$ 1,195,356		1.31%	$ 1,041,958		1.62%
Net interest income		$ 41,970			$ 38,133	
Net interest rate spread (4)			3.37%			3.40%
Net interest-earning assets (5)	$ 273,807			$ 245,426		
Net interest margin (6)			3.69%			3.79%
Average interest-earning assets to interest-bearing liabilities			131.65%			132.25%

(1) Loans includes mortgage loans held for sale, at fair value.

(2) Securities include available-for-sale securities and held-to-maturity securities.

(3) Includes FHLBNY demand account and FHLBNY stock dividends.

(4) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.

(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(6) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on the Bank's net interest income for the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Years Ended December 31, 2020 vs. 2019		
	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans (1)	$ 6,390	$ (3,307)	$ 3,083
Securities (2)	(121)	274	153
Other	421	(809)	(388)
Total interest-earning assets	6,690	(3,842)	2,848
Interest-bearing liabilities:			
NOW/IOLA	10	21	31
Money Market	1,690	(2,369)	(679)
Savings	(1)	(4)	(5)
Certificates of deposit	(452)	(649)	(1,101)
Total deposits	1,247	(3,001)	(1,754)
Advance payment by borrowers	—	—	—
Borrowings	1,041	(276)	765
Total interest-bearing liabilities	2,288	(3,277)	(989)
Change in net interest income	$ 4,402	$ (565)	$ 3,837

(1) Loans includes mortgage loans held for sale, at fair value.

(2) Securities include available-for-sale securities and held-to-maturity securities.

Management of Market Risk

General. The most significant form of market risk is interest rate risk because, as a financial institution, the majority of the Company's assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of the Company's operations is to manage interest rate risk and limit the exposure of its financial condition and results of operations to changes in market interest rates. The Company's Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in the Company's assets and liabilities, for determining the level of risk that is appropriate, given the business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with policies and guidelines approved by the Board of Directors. The Company currently utilizes a third-party modeling solution that is prepared on a quarterly basis, to evaluate its sensitivity to changing interest rates, given the Company's business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

The Bank does not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities. Mortgage World currently is not engaged in hedging activities to cover the risks of interest rate movements while it holds mortgages for sale. The current low mortgage interest rates and their limited volatility has effectively mitigated such risks. Should the mortgage interest rate environment change, Mortgage World may consider renewed hedging strategies.

Net Interest Income Simulation Models. Management utilizes a respected, sophisticated third party designed asset liability modeling software that measures the Bank's earnings through simulation modeling. Earning assets, interest-bearing liabilities and off-balance sheet financial instruments are combined with forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations over that same 12-month period. To limit interest rate risk, the Bank has policy guidelines for earnings risk which seek to limit the variance of net interest income in both gradual and instantaneous changes to interest rates. As of December 31, 2020, in the event of an instantaneous upward and downward change in rates from management's level interest rate forecast over the next twelve months, assuming a static balance sheet, the following estimated changes are calculated:

Rate Shift (basis points) (1)	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400	$ 38,841	(12.59%)
+300	40,808	(8.17%)
+200	42,434	(4.51%)
+100	43,671	(1.72%)
Level	44,437	0.00%
-100	43,909	(1.19%)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

Although an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, management believes that a gradual shift in interest rates would have a more modest impact. Further, the earnings simulation model does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could alter any potential adverse impact of changes in interest rates.

The behavior of the deposit portfolio in the baseline forecast and in alternate interest rate scenarios set out in the table above is a key assumption in the projected estimates of net interest income. The projected impact on net interest income in the table above assumes no change in deposit portfolio size or mix from the baseline forecast in alternative rate environments. In higher rate scenarios, any customer activity resulting in the replacement of low-cost or noninterest-bearing deposits with higher-yielding deposits or market-based funding would reduce the benefit in those scenarios.

At December 31, 2020, the earnings simulation model indicated that the Bank was in compliance with the Board of Directors approved Interest Rate Risk Policy.

Economic Value of Equity Model. While earnings simulation modeling attempts to determine the impact of a changing rate environment to net interest income, the Economic Value of Equity Model ("EVE") measures estimated changes to the economic values of assets, liabilities and off-balance sheet items as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case EVE. Rates are then shocked as prescribed by the Interest Rate Risk Policy to measure the sensitivity in EVE values for each of those shocked rate scenarios versus the base case. The Interest Rate Risk Policy sets limits for those sensitivities. At December 31, 2020, the EVE modeling calculated the following estimated changes in EVE due to instantaneous upward and downward changes in rates:

		Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Amount	Percent	EVE Ratio (4)	Increase (Decrease) basis points
	(Dollars in thousands)				
+400	$ 123,374	$ (15,705)	(11.29%)	9.75%	(1,129)
+300	130,263	(8,816)	(6.34%)	10.12%	(634)
+200	135,561	$ (3,518)	(2.53%)	10.35%	(253)
+100	139,001	(78)	(0.06%)	10.44%	(6)
Level	139,079	—	0.00%	10.27%	—
-100	150,653	11,574	8.32%	10.95%	832

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4) EVE Ratio represents EVE divided by the present value of assets.

Although an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, management believes that a gradual shift in interest rates would have a more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships and changing product spreads that could alter the adverse impact of changes in interest rates.

At December 31, 2020, the EVE model indicated that the Bank was in compliance with the Board of Directors approved Interest Rate Risk Policy.

Most Likely Earnings Simulation Models. Management also analyzes a most-likely earnings simulation scenario that projects the expected change in rates based on a forward yield curve adopted by management using expected balance sheet volumes forecasted by management. Separate growth assumptions are developed for loans, investments, deposits, etc. Other interest rate scenarios analyzed by management may include delayed rate shocks, yield curve steepening or flattening, or other variations in rate movements to further analyze or stress the balance sheet under various interest rate scenarios. Each scenario is evaluated by management and weighted to determine the most likely result. These processes assist management to better anticipate financial results and, as based thereon, management may determine the need to review other operating strategies and tactics which might enhance results or better position the balance sheet to reduce interest rate risk going forward.

Each of the above analyses may not, on its own, be an accurate indicator of how net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. The Asset/Liability Committee reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing and capital policies.

Management's model governance, model implementation and model validation processes and controls are subject to review in the Bank’s regulatory examinations to ensure they are in compliance with the most recent regulatory guidelines and industry and regulatory practices. Management utilizes a respected, sophisticated third party designed asset liability modeling software and external professionals to help ensure that the implementation of management's assumptions into the model are processed as intended and in a robust manner. That said, there are numerous assumptions regarding financial instrument behaviors that are integrated into the model. The assumptions are formulated by combining observations gleaned from the Bank’s historical studies of financial instruments and the best estimations of how, if at all, these instruments may behave in the future given changes in economic conditions, technology, etc. These assumptions may prove to be inaccurate. Additionally, given the large number of assumptions built into Bank’s asset liability modeling software, it is difficult, at best, to compare its results to other banks.

The Asset/Liability Committee may determine that the Bank should over time become more or less asset or liability sensitive depending on the underlying balance sheet circumstances and its conclusions as to anticipate interest rate fluctuations in future periods. The Federal Reserve Board decreased the targeted federal funds interest rate by an aggregate of 225 basis points during the second half of 2019 and first quarter of 2020. The 2020 rate cuts were in response to unprecedented market turmoil as a result of the onset of the COVID-19 pandemic. The Federal Reserve Board has stated that its federal funds interest rate policy will remain accommodative at least through 2023. We cannot make any representation as to whether, or how many times, the Federal Reserve Board will decrease or increase the targeted federal funds rate in the future.

GAP Analysis. In addition, management analyzes interest rate sensitivity by monitoring the Bank’s interest rate sensitivity "gap." The interest rate sensitivity gap is the difference between the amount of our interest-earning assets maturing or repricing within a specific time period and the amount of our interest bearing-liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period, and a gap is considered negative when the amount of interest rate sensitive liabilities maturing or repricing during a period exceeds the amount of interest rate sensitive assets maturing or repricing during the same period.

The following table sets forth the Bank’s interest-earning assets and its interest-bearing liabilities at December 31, 2020, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2020, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	December 31, 2020 Time to Repricing								
	Zero to 90 Days	**Zero to 180 Days**	**Zero Days to One Year**	**Zero Days to Two Years**	**Zero Days to Five Years**	**Zero Days to Five Years Plus**	**Total Earning Assets & Non Costing Liabilities**	**Non Earning Assets & Non Costing Liabilities**	**Total**
	(Dollars in thousands)								
Assets:									
Interest-bearing deposits in banks	$ 72,078	$ 72,078	$ 72,078	$ 72,078	$ 72,078	$ 72,078	$ 72,078		$ 72,078
Securities (1)	802	1,514	6,183	7,865	10,883	19,094	19,094	147	19,241
Placements with banks	2,739	2,739	2,739	2,739	2,739	2,739	2,739		$ 2,739
Loans receivable, net (includes LHFS)	182,337	273,469	451,205	710,938	1,147,028	1,195,099	1,195,099	(1,053)	1,194,046
FHLBNY Stock	6,426	6,426	6,426	6,426	6,426	6,426	6,426	—	6,426
Other assets	—	—	—	—	—	—	—	60,701	60,701
Total	$ 264,382	$ 356,226	$ 538,631	$ 800,046	$ 1,239,154	$ 1,295,436	$ 1,295,436	$ 59,795	$ 1,355,231
Liabilities:									
Non-maturity deposits	$ 16,445	$ 30,887	$ 59,771	$ 117,545	$ 256,222	$ 449,570	$ 449,570	$ 173,022	$ 622,592
Certificates of deposit	103,737	168,744	271,229	353,272	402,987	406,987	406,987	—	406,987
Other liabilities	8,000	8,000	8,000	120,324	148,699	148,699	148,699	17,409	166,108
Total liabilities	128,182	207,631	339,000	591,141	807,908	1,005,256	1,005,256	190,431	1,195,687
Stockholders' equity	—	—	—	—	—	—	—	159,544	159,544
Total liabilities and stockholders' equity	$ 128,182	$ 207,631	$ 339,000	$ 591,141	$ 807,908	$ 1,005,256	$ 1,005,256	$ 349,975	$ 1,355,231
Asset/liability gap	$ 136,200	$ 148,595	$ 199,631	$ 208,905	$ 431,246	$ 290,180	$ 290,180		
Gap/assets ratio	206.26%	171.57%	158.89%	135.34%	153.38%	128.87%	128.87%		

(1) Includes available-for-sale securities and held-to-maturity securities.

The following table sets forth the Bank's interest-earning assets and its interest-bearing liabilities at December 31, 2019, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2019, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	December 31, 2019 Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Zero Days to Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
	(Dollars in thousands)								
Assets:									
Interest-bearing deposits in banks	$ 20,915	$ 20,915	$ 20,915	$ 20,915	$ 20,915	$ 20,915	$ 20,915	$ 6,762	$ 27,677
Available-for-sale securities	8,345	14,289	17,317	17,780	18,971	21,535	21,535	(31)	21,504
Placements with banks	—	—	—	—	—	—	—	—	—
Loans receivable, net (includes LHFS)	89,160	150,369	252,643	449,840	916,284	957,901	957,901	(1,134)	956,767
FHLBNY Stock	5,735	5,735	5,735	5,735	5,735	5,735	5,735	—	5,735
Other assets	—	—	—	—	—	—	—	42,073	42,073
Total	$ 124,155	$ 191,308	$ 296,610	$ 494,270	$ 961,905	$ 1,006,086	$ 1,006,086	$ 47,670	$ 1,053,756
Liabilities:									
Non-maturity deposits	$ 282,997	$ 282,997	$ 282,997	$ 282,997	$ 282,997	$ 282,997	$ 282,997	$ 109,548	$ 392,545
Certificates of deposit	73,784	119,986	216,963	327,082	389,499	389,498	389,498	—	389,498
Other liabilities	—	—	—	11,029	104,404	104,404	104,404	8,907	113,311
Total liabilities	356,781	402,983	499,960	621,108	776,900	776,899	776,899	118,455	895,354
Stockholders' equity	—	—	—	—	—	—	—	158,402	158,402
Total liabilities and stockholders' equity	$ 356,781	$ 402,983	$ 499,960	$ 621,108	$ 776,900	$ 776,899	$ 776,899	$ 276,857	$ 1,053,756
Asset/liability gap	$ (232,626)	$ (211,675)	$ (203,350)	$ (126,838)	$ 185,005	$ 229,187	$ 229,187		
Gap/assets ratio	34.80%	47.47%	59.33%	79.58%	123.81%	129.50%	129.50%		

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and economic value tables presented assume that the composition of the interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and EVE tables provide an indication of the interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and EVE and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes the ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's customers and to fund current and planned expenditures. The primary sources of funds are deposits, principal and interest payments on loans and available-for-sale securities and proceeds from the sale of loans. The Bank also has access to borrow from the FHLBNY. At December 31, 2020 and 2019, we had $117.3 million and $104.4 million, respectively, of term and overnight outstanding advances from the FHLBNY, and also had a guarantee from the FHLBNY through letters of credit of up to $61.5 million and $3.5 million, respectively. At December 31, 2020 and 2019, there was eligible collateral of approximately $336.8 million and 301.8 million, respectively, in mortgage loans available to secure advances from the FHLBNY. The Bank also has an unsecured line of credit of $25.0 million with a correspondent bank, of which there was none outstanding at December 31, 2020 and 2019. The Bank did not have any outstanding securities sold under repurchase agreements with brokers as of December 31, 2020 and 2019. Mortgage World maintains two warehouse lines of credit with financial institutions for the purpose of funding the origination and sale of residential mortgage loans, with a maximum credit line of $34.9 million, of which $30.0 million was utilized, with $4.9 million remaining unused, as of December 31, 2020.

Although maturities and scheduled amortization of loans and available-for-sale securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. The most liquid assets are cash and interest-bearing deposits in banks. The levels of these assets are dependent on operating, financing, lending and investing activities during any given period.

Net cash (used in) provided by operating activities was ($27.5 million) and $5.0 million for the years ended December 31, 2020 and 2019, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations, offset by principal collections on loans, purchases of available-for-sale and held-to-maturity securities, proceeds from maturing of available-for-sale securities and pay downs on mortgage-backed available-for-sale securities, was $(204.6 million) and $(38.7 million) for the years ended December 31, 2020 and 2019, respectively. Net cash provided by (used in) financing activities, consisting of activities in deposit accounts, advances and repurchase of treasury stock, was $276.5 million and ($8.5 million) for the years ended December 31, 2020 and 2019, respectively.

Based on the Company's current assessment of the economic impact of the COVID-19 pandemic on its borrowers, management has determined that it will likely be a detriment to borrowers' ability to repay in the short-term and that the likelihood of long-term detrimental effects will depend significantly on the resumption of normalized economic activities, a factor not yet determinable. The Bank's management also took steps to enhance the Company's liquidity position by increasing its on balance sheet cash and cash equivalents position in order to meet unforeseen liquidity events and to fund upcoming funding needs.

At December 31, 2020 and 2019, all regulatory capital requirements were met, resulting in the Company and the Bank being categorized as well capitalized at December 31, 2020 and 2019. Management is not aware of any conditions or events that would change the Company's and the Bank's well capitalized category.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, the Company routinely is a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. Although these contractual obligations represent the Company's future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans originated. At December 31, 2020 and 2019, the Company had outstanding commitments to originate loans, commitments to sell loans at lock-in rates, commitments under lines of credit, and letters of credit totaling $151.3 million and $96.1 million, respectively. It is anticipated that the Company will have sufficient funds available to meet its current lending commitments. Certificates of deposits that are scheduled to mature in less than one year from December 31, 2020 total $271.2 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits are not retained, the Company may utilize FHLBNY advances, unsecured credit lines with correspondent banks, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Contractual Obligations. In the ordinary course of its operations, the Company enters into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

The following table summarizes our contractual obligations as of December 31, 2020 for the periods indicated below:

		For the Years Ending December 31,					
	Total	2021	2022	2023	2024	2025	Thereafter
	(in thousands)						
Operating leases	$ 13,881	$ 1,633	$ 1,525	$ 1,535	$ 1,516	$ 1,434	$ 6,238
Vendor obligations (1)	18,821	3,607	3,183	3,173	3,170	2,843	2,845
Advances from FHLBNY	117,255	11,000	77,880	28,375	—	—	—
Certificates of deposit	406,987	271,229	82,043	24,123	11,036	14,556	4,000
Total contractual obligation	$ 556,944	$ 287,469	$ 164,631	$ 57,206	$ 15,722	$ 18,833	$ 13,083

(1) Amounts are for data processing services, leases of equipment and service implementation.

The obligations related to our uncertain tax positions, which are not considered material, have been excluded from the table above because of the uncertainty surrounding the timing and final amounts of settlement, if any.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information regarding quantitative and qualitative disclosures about market risk appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Management of Market Risk."

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of PDL Community Bancorp

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of PDL Community Bancorp and Subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income (loss), comprehensive income (loss), stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mazars USA LLP
We have served as the Company’s auditor since 2013.

New York, New York
March 26, 2021

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Financial Condition
December 31, 2020 and 2019
(Dollars in thousands, except share data)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents (Note 3):		
Cash	$ 26,936	$ 6,762
Interest-bearing deposits in banks	45,142	20,915
Total cash and cash equivalents	72,078	27,677
Available-for-sale securities, at fair value (Note 4)	17,498	21,504
Held-to-maturity securities, at amortized cost (fair value of $1,722) (Note 4)	1,743	—
Placements with banks	2,739	—
Mortgage loans held for sale, at fair value	35,406	1,030
Loans receivable, net of allowance for loan losses - 2020 $14,870; 2019 $12,329 (Note 5)	1,158,640	955,737
Accrued interest receivable	11,396	3,982
Premises and equipment, net (Note 6)	32,045	32,746
Federal Home Loan Bank of New York Stock (FHLBNY), at cost	6,426	5,735
Deferred tax assets (Note 9)	4,656	3,724
Other assets	12,604	1,621
Total assets	$ 1,355,231	$ 1,053,756
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Note 7)	$ 1,029,579	$ 782,043
Accrued interest payable	60	97
Advance payments by borrowers for taxes and insurance	7,019	6,348
Advances from the Federal Home Loan Bank of New York and others (Note 8)	117,255	104,404
Warehouse lines of credit (Note 8)	29,961	—
Mortgage loan fundings payable (Note 8)	1,483	—
Other liabilities	10,330	2,462
Total liabilities	1,195,687	895,354
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 50,000,000 shares authorized; 18,463,028 shares issued and 17,125,969 shares outstanding as of December 31, 2020 and 18,463,028 shares issued and 17,451,134 outstanding as of December 31, 2019	185	185
Treasury stock, at cost; 1,337,059 shares as of December 31, 2020 and 1,011,894 shares as of December 31, 2019 (Note 10)	(18,114)	(14,478)
Additional paid-in-capital	85,105	84,777
Retained earnings	97,541	93,688
Accumulated other comprehensive income (loss) (Note 15)	135	20
Unearned Employee Stock Ownership Plan (ESOP); 530,751 shares as of December 31, 2020 and 579,001 shares as of December 31, 2019 (Note 10)	(5,308)	(5,790)
Total stockholders' equity	159,544	158,402
Total liabilities and stockholders' equity	$ 1,355,231	$ 1,053,756

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Income (Loss)
For the Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands, except share and per share data)

	For the Years Ended December 31,		
	2020	2019	2018
Interest and dividend income:			
Interest on loans receivable	$ 52,389	$ 49,306	$ 44,948
Interest on deposits due from banks	84	617	679
Interest and dividend on available-for-sale securities and FHLBNY stock	866	568	529
Total interest and dividend income	53,339	50,491	46,156
Interest expense:			
Interest on certificates of deposit	6,576	7,677	7,617
Interest on other deposits	2,174	2,827	974
Interest on borrowings	2,619	1,854	899
Total interest expense	11,369	12,358	9,490
Net interest income	41,970	38,133	36,666
Provision for loan losses (Note 5)	2,443	258	1,249
Net interest income after provision for loan losses	39,527	37,875	35,417
Non-interest income:			
Service charges and fees	892	971	845
Brokerage commissions	974	212	533
Late and prepayment charges	358	755	606
Income on sale of mortgage loans	4,120	—	—
Loan origination	925	—	—
Gain on sale of real property	4,177	—	—
Other	1,801	745	954
Total non-interest income	13,247	2,683	2,938
Non-interest expense:			
Compensation and benefits	22,053	18,883	17,939
Loss on termination of pension plan	—	9,930	—
Occupancy and equipment	9,564	7,612	6,673
Data processing expenses	2,137	1,576	1,408
Direct loan expenses	1,447	692	788
Insurance and surety bond premiums	553	414	369
Office supplies, telephone and postage	1,399	1,185	1,309
Professional fees	6,049	3,237	3,154
Marketing and promotional expenses	488	158	215
Directors fees	276	294	277
Regulatory dues	210	231	238
Other operating expenses	3,363	2,395	2,187
Total non-interest expense	47,539	46,607	34,557
Income (loss) before income taxes	5,235	(6,049)	3,798
Provision (benefit) for income taxes (Note 9)	1,382	(924)	1,121
Net income (loss)	$ 3,853	$ (5,125)	$ 2,677
Earnings (loss) per share: (Note 11)			
Basic	$ 0.23	$ (0.29)	$ 0.15
Diluted	$ 0.23	$ (0.29)	$ 0.15
Weighted average shares outstanding: (Note 11)			
Basic	16,673,193	17,432,318	17,805,869
Diluted	16,682,584	17,432,318	17,812,206

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020, 2019 and 2018
(In thousands)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Net income (loss)	$ 3,853	$ (5,125)	$ 2,677
Net change in unrealized gains (losses) on securities available-for-sale:			
Unrealized gain (losses)	147	395	(89)
Income tax effect	(32)	(84)	19
Unrealized gain (losses) on securities, net	115	311	(70)
Pension benefit liability adjustment:			
Net gain during the period	—	9,930	1,368
Reclassification of stranded income tax effects from accumulated other comprehensive income	—	—	(1,281)
Income tax effect	—	(2,086)	(301)
Pension liability adjustment, net of tax	—	7,844	(214)
Total other comprehensive income (loss), net of tax	115	8,155	(284)
Total comprehensive income	$ 3,968	$ 3,030	$ 2,393

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Treasury Stock, At Cost	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan (ESOP)	Total
Balance, December 31, 2017	18,463,028	$ 185	$ —	$ 84,351	$ 94,855	$ (7,851)	$ (6,755)	$ 164,785
Net income	—	—	—	—	2,677	—	—	2,677
Other comprehensive income, net of tax	—	—	—	—	—	997	—	997
Reclassification of stranded income tax effects from accumulated other comprehensive income	—	—	—	—	1,281	(1,281)	—	—
ESOP shares committed to be released (48,250 shares)	—	—	—	132	—	—	483	615
Restricted stock awards	—	—	—	91	—	—	—	91
Stock options	—	—	—	7	—	—	—	7
Balance, December 31, 2018	18,463,028	$ 185	$ —	$ 84,581	$ 98,813	$ (8,135)	$ (6,272)	$ 169,172
Net loss	—	—	—	—	(5,125)	—	—	(5,125)
Other comprehensive income, net of tax	—	—	—	—	—	8,155	—	8,155
Release of restricted stock units	90,135	—	1,285	(1,285)	—	—	—	—
Treasury stock	(1,102,029)	—	(15,763)	—	—	—	—	(15,763)
ESOP shares committed to be released (48,250 shares)	—	—	—	225	—	—	482	707
Restricted stock awards	—	—	—	1,155	—	—	—	1,155
Stock options	—	—	—	101	—	—	—	101
Balance, December 31, 2019	17,451,134	$ 185	$ (14,478)	$ 84,777	$ 93,688	$ 20	$ (5,790)	$ 158,402
Net income	—	—	—	—	3,853	—	—	3,853
Other comprehensive income, net of tax	—	—	—	—	—	115	—	115
Release of restricted stock units	96,825	—	1,075	(1,075)	—	—	—	—
Treasury stock	(421,990)	—	(4,711)	—	—	—	—	(4,711)
ESOP shares committed to be released (48,250 shares)	—	—	—	—	—	—	482	482
Restricted stock awards	—	—	—	1,276	—	—	—	1,276
Stock options	—	—	—	127	—	—	—	127
Balance, December 31, 2020	17,125,969	$ 185	$ (18,114)	$ 85,105	$ 97,541	$ 135	$ (5,308)	$ 159,544

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020, 2019 and 2018
(In thousands)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Cash Flows From Operating Activities:			
Net income (loss)	$ 3,853	$ (5,125)	$ 2,677
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Amortization of premiums/discounts on securities, net	7	42	10
Loss on sale of loans	62	102	54
Gain on sale of available-for-sale securities	—	—	(12)
Gain on sale of real property	(4,177)	—	—
Gain on derivatives	(166)	—	—
Loss on termination of pension plan	—	9,930	—
Provision for loan losses	2,443	258	1,249
Depreciation and amortization	2,519	2,222	1,798
ESOP compensation expense	540	766	615
Share-based compensation expense	1,403	1,256	98
Deferred income taxes	(932)	(2,099)	(184)
Changes in assets and liabilities:			
Increase in mortgage loans held for sale, at fair value	(23,827)	(1,030)	—
Increase in accrued interest receivable	(7,414)	(187)	(460)
(Increase) decrease in other assets	(10,045)	1,450	(371)
(Decrease) increase in accrued interest payable	(37)	34	21
Increase in advance payments by borrowers	671	311	1,012
Increase in loan fundings payable	246	—	—
Net increase (decrease) in other liabilities	7,354	(2,884)	1,378
Net cash (used in) provided by operating activities	(27,500)	5,046	7,885
Cash Flows From Investing Activities:			
Business acquisition, net of cash acquired	(1,005)	—	—
Proceeds from redemption of FHLBNY Stock	4,759	11,565	—
Purchases of FHLBNY Stock	(5,450)	(14,385)	(1,404)
Purchases of available-for-sale securities	(13,625)	(34,000)	(4,996)
Proceeds from sale of available-for-sale securities	—	—	3,760
Proceeds from maturities, calls and principal repayments on available-for-sale securities	17,769	39,555	2,902
Purchases of held-to-maturity securities	(1,743)	—	—
Placements with banks	(2,739)	—	—
Proceeds from sales of loans	3,977	3,614	6,885
Net increase in loans	(209,385)	(41,202)	(127,994)
Proceeds from sale of real property	4,743	—	—
Purchases of premises and equipment	(1,902)	(3,816)	(5,761)
Net cash used in investing activities	(204,601)	(38,669)	(126,608)
Cash Flows From Financing Activities:			
Net increase (decrease) in deposits	$ 247,536	$ (27,715)	$ 95,773
Repurchase of treasury stock	(4,711)	(15,763)	—
Proceeds from advances from FHLBNY	192,730	699,498	271,027
Repayments of advances to FHLBNY	(179,879)	(664,498)	(238,023)
Net advances on warehouse lines of credit	20,826	—	—
Net cash provided (used in) by financing activities	276,502	(8,478)	128,777
Net increase (decrease) in cash and cash equivalents	44,401	(42,101)	10,054
Cash and Cash Equivalents, including restricted cash:			
Beginning	27,677	69,778	59,724
Ending	$ 72,078	$ 27,677	$ 69,778

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2020, 2019 and 2018
(In thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Supplemental Disclosures:			
Cash paid during the year:			
Interest	$ 11,360	$ 12,324	$ 9,469
Income taxes	$ 531	$ 1,178	$ 549
Supplemental Disclosures of Noncash Investing Activities:			
Acquisitions			
Non-cash assets acquired:	$ 10,549	$ —	$ —
Mortgage loans held for sale, at fair value	302	—	—
Premises and equipment	772	—	—
Other assets	$ 11,623	$ —	$ —
Total non-cash assets acquired			
Liabilities assumed:			
Warehouse lines of credit	9,135	—	—
Mortgage loan fundings payable	1,237	—	—
Other liabilities	246	—	—
Total liabilities assumed	10,618	—	—
Net non-cash assets acquired	1,005	—	—
Cash and cash equivalents acquired	750	—	—
Consideration paid	$ 1,755	$ —	$ —

The accompanying notes are an integral part of the consolidated financial statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Basis of Presentation and Consolidation:

The Consolidated Financial Statements of PDL Community Bancorp (the "Company") presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries Ponce Bank (the "Bank") and Mortgage World Bankers, Inc. ("Mortgage World"), and the Bank's wholly-owned subsidiaries. The Bank's subsidiaries consist of PFS Service Corp., which owns some of the Bank's real property, and Ponce De Leon Mortgage Corp., which is a mortgage banking entity. All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations:

The Company is a financial holding company formed on September 29, 2017 in connection with the reorganization of the Bank into a mutual holding company structure. The Company is subject to the regulation and examination by the Board of Governors of the Federal Reserve. The Company's business is conducted through the administrative office and 19 mortgage and banking offices. The banking offices are located in New York City – the Bronx (4 branches), Manhattan (2 branches), Queens (3 branches), Brooklyn (3 branches) and Union City (1 branch), New Jersey. The mortgage offices are located in Nassau County (1), Queens (2) and Brooklyn (1), New York and Englewood Cliffs (1) and Bergenfield (1), New Jersey. The Company's primary market area currently consists of the New York City metropolitan area.

The Bank is a federally chartered stock savings association headquartered in the Bronx, New York. It was originally chartered in 1960 as a federally chartered mutual savings and loan association under the name Ponce De Leon Federal Savings and Loan Association. In 1985, the Bank changed its name to "Ponce De Leon Federal Savings Bank." In 1997, the Bank changed its name again to "Ponce De Leon Federal Bank." Upon the completion of its reorganization into a mutual holding company structure, the assets and liabilities of Ponce De Leon Federal Bank were transferred to and assumed by the Bank. The Bank is a Minority Depository Institution, a Community Development Financial Institution, and a certified Small Business Administration lender. The Bank is subject to comprehensive regulation and examination by the Office of Comptroller of the Currency (the "OCC").

The Bank's business primarily consists of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans, consisting of one-to-four family residential (both investor-owned and owner-occupied), multifamily residential, nonresidential properties and construction and land, and, to a lesser extent, in business and consumer loans. The Bank also invests in securities, which have historically consisted of U.S. government and federal agency securities and securities issued by government-sponsored or owned enterprises, mortgage-backed securities and Federal Home Loan Bank of New York (the "FHLBNY") stock. The Bank offers a variety of deposit accounts, including demand, savings, money markets and certificates of deposit accounts.

On July 10, 2020, the Company completed its acquisition of Mortgage World. Mortgage World is a mortgage banking entity subject to the regulation and examination of the New York State Department of Financial Services. The primary business of Mortgage World is the taking of applications from the general public for residential mortgage loans, underwriting them to investors' standards, closing and funding them and holding them until they are sold to investors. Although Mortgage World is permitted to do business in various states (New York, New Jersey, Pennsylvania, Florida and Connecticut), it primarily operates in the New York City metropolitan area.

Risks and Uncertainties:

The COVID-19 pandemic continues to disrupt the global and U.S. economies and as well as the lives of individuals throughout the world. The New York City Metropolitan area continues to experience cases of the COVID-19 pandemic. Governments, businesses, and the public are taking unprecedented actions to contain the spread of the COVID-19 pandemic and to mitigate its effects, including quarantines and travel bans. Businesses and schools have slowly reopened, but in some cases, schools have had to revert to remote teaching while some businesses, in particular restaurants, have had to scale back and/or adjust their opening plans. While the scope, duration, and full effects of the COVID-19 pandemic continues to evolve it continues to have a significantly adverse impact on the functioning of the global financial markets and the Company's business while increasing economic and market uncertainty.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The financial impact is still unknown at this time. However, if the pandemic continues for a sustained period of time, it may continue to adversely impact several industries within our geographic footprint and impair the ability of the Company's customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, loan portfolio, financial condition, and results of operations. During the year ended December 31, 2020, the provision for loan losses increased by $2,433 primarily due to increases in qualitative reserves as the Company continues to assess the economic impacts the COVID-19 pandemic has on our local economy and our loan portfolio. Therefore, there is a reasonable probability that the Company's allowance for loan losses as of December 31, 2020 may change thereafter and could result in a material adverse change to the Company's provision for loan losses, earnings and capital.

Summary of Significant Accounting Policies:

Use of Estimates: In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the consolidated statement of financial condition, and revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of loans held for sale, the valuation of deferred tax assets and investment securities and the estimates relating to the valuation for share-based awards.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within New York City. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and Mortgage World's ability to sell originated loans in the secondary markets are susceptible to changes in the local market conditions. Note 4 discusses the types of securities that the Bank invests in. Notes 5 and 12 discuss the types of lending that the Bank engages in, and other concentrations.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and amounts due from banks (including items in process of clearing). For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash flows from loans originated by the Company, interest-bearing deposits in financial institutions, and deposits are reported net. Included in cash and cash equivalents are restricted cash from escrows and good faith deposits. Escrows consist of U.S. Department of Housing and Urban Development ("HUD") upfront mortgage insurance premiums and escrows on unsold mortgages that are held on behalf of borrowers. Good faith deposits consist of deposits received from commercial loan customers for use in various disbursements relating to the closing of a commercial loan. Restricted cash are included in cash and cash equivalents for purposes of the consolidated statement of cash flows.

Securities: Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each statement of financial condition date.

Debt securities that management has the positive intent and ability to hold to maturity, if any, are classified as "held-to-maturity" and recorded at amortized cost. Trading securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the consolidated statement of income (loss) and 2) OTTI related to other factors, which is recognized in other comprehensive income.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The credit loss is defined as the difference between the discounted present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The sale of a held-to-maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Federal Home Loan Bank of New York Stock: The Bank is a member of the FHLBNY. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLBNY stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at current unpaid principal balances, net of the allowance for loan losses and including net deferred loan origination fees and costs.

Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments.

A loan is moved to nonaccrual status in accordance with the Company’s policy typically after 90 days of non-payment. The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan becomes 90 days past due unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off if collection of principal or interest is considered doubtful. All nonaccrual loans are considered impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash basis or recorded against principal balances, until qualifying for return to accrual. Cash basis interest recognition is only applied on nonaccrual loans with a sufficient collateral margin to ensure no doubt with respect to the collectability of principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and remain current for a period of time (typically six months) and future payments are reasonably assured. Accrued interest receivable is closely monitored for collectability and will be charged-off in a timely manner if deemed uncollectable.

Allowance for Loan Losses: The allowance for loan losses (“ALLL”) is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged-off. The Company’s assessment of the economic impact of the COVID-19 pandemic on borrowers indicates that it is likely that it will be a detriment to their ability to repay in the short-term and that the likelihood of long-term detrimental effects depends significantly on the resumption of normalized economic activities, a factor not yet determinable.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Impaired loans are measured for impairment using the fair value of the collateral, present value of cash flows, or the observable market price of the note. Impairment measurement for all collateral dependent loans, excluding accruing troubled debt restructurings, is based on the fair value of collateral, less costs to sell, if necessary. A loan is considered collateral dependent if repayment of the loan is expected to be provided solely by the sale or the operation of the underlying collateral.

When a loan is modified to troubled debt restructuring, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs, if repayment under the modified terms becomes doubtful.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced over a rolling 12 quarter average period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and, effects of changes in credit concentrations.

When establishing the allowance for loan losses, management categorizes loans into risk categories reflecting individual borrower earnings, liquidity, leverage and cash flow, as well as the nature of underlying collateral. These risk categories and relevant risk characteristics are as follows:

Residential and Multifamily Mortgage Loans: Residential and multifamily mortgage loans are secured by first mortgages. These loans are typically underwritten with loan-to-value ratios ranging from 65% to 90%. The primary risks involved in residential mortgages are the borrower’s loss of employment, or other significant event, that negatively impacts the source of repayment. Additionally, a serious decline in home values could jeopardize repayment in the event that the underlying collateral needs to be liquidated to pay off the loan.

Nonresidential Mortgage Loans: Nonresidential mortgage loans are primarily secured by commercial buildings, office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including hotels, restaurants and nursing homes. These loans are typically underwritten at no more than 75% loan-to-value ratio. Although terms vary, commercial real estate loans generally have amortization periods of 15 to 30 years, as well as balloon payments of 10 to 15 years, and terms which provide that the interest rates are adjusted on a 5 year schedule.

Construction and Land Loans: Construction real estate loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that government approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of six months to two years during the construction period with fixed rates or interest rates based on a designated index.

Business Loans: Business loans are loans for commercial, corporate and business purposes, including issuing letters of credit. These loans are secured by business assets or may be unsecured and repayment is directly dependent on the successful operation of the borrower’s business and the borrower’s ability to convert the assets to operating revenue. They possess greater risk than most other types of loans because the repayment capacity of the borrower may become inadequate. Business loans generally have terms of five to seven years or less and interest rates that float in accordance with a designated published index. Substantially all such loans are backed by the personal guarantees of the owners of the business.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Consumer Loans: Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include passbook loans and other secured and unsecured loans that have been made for a variety of consumer purposes.

Mortgage Loans Held for Sale: Mortgage loans held for sale, at fair value, include residential mortgages that were originated in accordance with secondary market pricing and underwriting standards. These loans are loans originated by Mortgage World and the Company intends to sell these loans on the secondary market. Mortgage loans held for sale are carried at fair value under the fair value option accounting guidance for financial assets and financial liabilities. The gains or losses for the changes in fair value of these loans are included in income on sale of mortgage loans on the consolidated statements of income (loss). Interest income on mortgage loans held for sale measured under the fair value option is calculated based on the principal amount of the loan and is included in interest loans receivable on the consolidated statements of income (loss).

The Bank loans held for sale are earmarked for investor purchase and are reported at the lower of cost or fair value as determined by investor bid prices. Sales of loans occur from time to time as part of strategic business or regulatory compliance initiatives. Loans held for sale are sold without recourse and servicing released. When a loan is transferred from portfolio to held for sale and the fair value is less than cost, a charge-off is recorded against the allowance for loan losses. Subsequent declines in fair value, if any, are charged against earnings.

Derivative Financial Instruments: The Company, through Mortgage World, uses derivative financial instruments as a part of its price risk management activities. All such derivative financial instruments are designated as free-standing derivative instruments. In accordance with FASB ASC 815-25, Derivatives and Hedging, all derivative instruments are recognized as assets or liabilities on the balance sheet at their fair value. Change in the fair value of these derivatives is reported in current period earnings.

Additionally, to facilitate the sale of mortgage loans, Mortgage World may enter into forward sale positions on securities, and mandatory delivery positions. Exposure to losses or gains on these positions is limited to the net difference between the calculated amounts to be received and paid. As of December 31, 2020, the Company did not enter into any forward sale or mandatory delivery positions on their financial instruments.

Revenue from Contracts with Customers: The Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Company's primary source of revenue is interest income on financial assets and income from mortgage banking activities, which are explicitly excluded from the scope of ASC 606.

COVID-19 Pandemic and the CARES Act: On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. Section 4013 of the CARES Act, “Temporary Relief from Troubled Debt Restructurings,” provides banks the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings (“TDR”) for a limited period of time to account for the effects of the COVID-19 pandemic. Additionally, on April 7, 2020, the banking agencies, including the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, issued a statement, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)” (“Interagency Statement”), to encourage banks to work prudently with borrowers and to describe the agencies’ interpretation of how accounting rules under ASC 310-40, “Troubled Debt Restructurings by Creditors,” apply to certain of the COVID-19 pandemic related modifications. Further, on August 3, 2020, the Federal Financial Institutions Examination Council issued a Joint Statement on Additional Loan Accommodations related to the COVID-19 pandemic, to provide prudent risk management and consumer protection principles for financial institutions to consider while working with borrowers as loans near the end of initial loan accommodation periods.

Under the CARES Act and related Interagency Statement, the Company may temporarily suspend its delinquency and nonperforming treatment for certain loans that have been granted a payment accommodation that facilitates borrowers' ability to work through the immediate impact of the pandemic. Borrowers who were current prior to becoming affected by the COVID-19 pandemic, then receive payment accommodations as a result of the effects of the COVID-19 pandemic and if all payments are current in accordance with the revised terms of the loan, generally would not be reported as past due. The Company has chosen to utilize this part of the CARES Act as it relates to delinquencies and nonperforming loans and does not report these loans as past due.

(Dollars in thousands, unless otherwise stated)

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Under Section 4013 of the CARES Act, modifications of loan terms do not automatically result in TDRs and the Company generally does not need to categorize the COVID-19 pandemic-related modifications as TDRs. The Company may elect not to categorize loan modifications as TDRs if they are (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. The termination date was extended by the Consolidated Appropriations Act of 2021, to the earlier of 60 days after the date of termination of the National Emergency or January 1, 2022. For all other loan modifications, the federal banking agencies have confirmed with staff of the Financial Accounting Standards Board ("FASB") that short-term modifications made on a good faith basis in response to the COVID-19 pandemic to borrowers who were current prior to any relief, are not TDRs.

This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Financial institutions accounting for eligible loans under Section 4013 are not required to apply ASC Subtopic 310-40 to the Section 4013 loans for the term of the loan modification. Financial institutions do not have to report Section 4013 loans as TDRs in regulatory reports, including this Form 10-K. The Company has chosen to utilize this section of the CARES Act and does not report the COVID-19 pandemic related modifications as TDRs.

Under the CARES Act and related Interagency Statement, in regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to the COVID-19 pandemic as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral. Each financial institution should refer to the applicable regulatory reporting instructions, as well as its internal accounting policies, to determine if loans to distressed borrowers should be reported as nonaccrual assets in regulatory reports. However, during the short-term arrangements, these loans generally should not be reported as nonaccrual. The Company has elected to follow this guidance of the CARES Act and reports loans that have been granted payment deferrals as current so long as they were current at the time the deferral was granted.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered. A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset, (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership, (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest, or recourse to the transferor other than standard representation or warranties, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through either (a) an agreement to repurchase them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation is computed and charged to operations using the straight-line method over the estimated useful lives of the respective assets as follows:

	Years
Building	39
Building improvements	15 - 39
Furniture, fixtures, and equipment	3 - 10

Leasehold improvements are amortized over the shorter of the improvements’ estimated economic lives or the related lease terms, including extensions expected to be exercised. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized. Leasehold improvements in process are not amortized until the assets are placed in operation.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets: Long-lived assets, including premises and leasehold improvements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

Other Real Estate Owned: Other Real Estate Owned ("OREO") represents properties acquired through, or in lieu of, loan foreclosure or other proceedings. OREO is initially recorded at fair value, less estimated disposal costs, at the date of foreclosure, which establishes a new cost basis. After foreclosure, the properties are held for sale and are carried at the lower of cost or fair value, less estimated costs of disposal. Any write-down to fair value, at the time of transfer to OREO, is charged to the allowance for loan losses.

Properties are evaluated regularly to ensure that the recorded amounts are supported by current fair values and charges against earnings are recorded as necessary to reduce the carrying amount to fair value, less estimated costs to dispose. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the OREO, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

Income Taxes: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional provision for income taxes in the consolidated statements of income (loss).

Related Party Transactions: Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risk of collectability, nor favored treatment or terms, nor present other unfavorable features. Note 16 contains details regarding related party transactions.

Employee Benefit Plans: The Company maintains the Bank’s 401(k) Plan, an Employee Stock Ownership Plan, a Long-Term Incentive Plan that includes grants of restricted stock units and stock options, and a Supplemental Executive Retirement Plan (the “SERP”).

401(k) Plan: The 401(k) Plan provides for elective employee/participant deferrals of income. Discretionary matching, profit-sharing, and safe harbor contributions, not to exceed 4% of employee compensation and profit-sharing contributions may be provided.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Employee Stock Ownership Plan: Compensation expense is recorded as shares are committed to be released with a corresponding credit to unearned ESOP equity account at the average fair market value of the shares during the period and the shares become outstanding for earnings per share computations. Compensation expense is recognized ratably over the service period based upon management's estimate of the number of shares expected to be allocated by the ESOP. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in-capital. Unallocated common shares held by the Company's ESOP are shown as a reduction in stockholders' equity and are excluded from weighted-average common shares outstanding for both basic and diluted earnings per share calculations until they are committed to be released.

Stock Options: The Company recognizes the value of shared-based payment transactions as compensation costs in the financial statements over the period that an employee provides service in exchange for the award. The fair value of the share-based payments for stock options is estimated using the Black-Scholes option-pricing model. The Company accounts for forfeitures as they occur during the period.

Restricted Stock Units: The Company recognizes compensation cost related to restricted stock units based on the market price of the stock units at the grant date over the vesting period. The product of the number of units granted and the grant date market price of the Company's common stock determines the fair value of restricted stock units. The Company recognizes compensation expense for the fair value of the restricted stock units on a straight-line basis over the requisite service period.

Comprehensive Income: Comprehensive income consists of net income (loss) and other comprehensive income (loss) which are both recognized as separate components of equity. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrecognized gains and losses on actuarial loss and prior service cost of the defined benefit plan.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the operations and financial position of the Company.

Fair Value of Financial Instruments: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Segment Reporting: The Company's business is conducted through two business segments: Ponce Bank, which involves the delivery of loan and deposit products to customers, and Mortgage World, which consists of mortgage underwriting and selling such mortgages to investors. Accordingly, all of the financial service operations are considered by management to be aggregated in two reportable operating segments as more fully disclosed in Note 19.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings (Loss) per Share ("EPS"): Basic EPS represents net income (loss) attributable to common shareholders divided by the basic weighted average common shares outstanding. Diluted EPS is computed by dividing net income (loss) attributable to common shareholders by the basic weighted average common shares outstanding, plus the effect of potential dilutive common stock equivalents outstanding during the period. Basic weighted common shares outstanding is weighted average common shares outstanding less weighted average unallocated ESOP shares.

Treasury Stock: Shares repurchased under the Company's share repurchase programs were purchased in open-market transactions and are held as treasury stock. The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Reclassification of Prior Year Presentation: Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reporting results of operations and did not affect previously reported amounts in the Consolidated Statements of Income (Loss).

Recent Accounting Pronouncements:

As an emerging growth company ("EGC") as defined in Rule 12b-2 of the Exchange Act, the Company has elected to use the extended transition period to delay the adoption of new or reissued accounting pronouncements applicable to public business entities until such pronouncements are made applicable to nonpublic business entities. As of December 31, 2020, there is no significant difference in the comparability of the consolidated financial statements as a result of this extended transition period.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)."* This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. To date, the Company has identified its leased office spaces as within the scope of the guidance. The Company currently leases 13 branches and mortgage offices and the new guidance will result in the establishment of a right to use asset and corresponding lease obligations. The Company continues to evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope and subsequent related accounting standard updates. The Company has established a project committee and has initiated training on ASU 2016-02. The Company is performing preliminary computations of its right to use asset and corresponding lease obligations for the operating leases of its 13 branches.

In June 2016, the FASB issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments."* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard is to replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, is to apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also reportedly simplifies the accounting model for purchased credit-impaired debt, securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, for public business entities, that are not deemed to be smaller reporting companies as defined by the SEC as of November 15, 2019. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities have to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach).

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Although early adoption is permitted, the Company does not expect to elect that option. The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. As a result of the required change in approach toward determining estimated credit losses from the current “incurred loss” model to one based on estimated cash flows over a loan’s contractual life, adjusted for prepayments (a “life of loan” model), the Company expects that the new guidance will result in an increase in the allowance for loan losses, particularly for longer duration loan portfolios. The Company also expects that the new guidance may result in an allowance for available-for-sale debt securities. The Company has selected the CECL model and has begun running scenarios. In both cases, the extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time.

In March 2017, the FASB issued ASU 2017-08 *“Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.”* The ASU requires premiums on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018 for public business entities. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, the Company adopted the amendments in this update for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. ASU 2017-08 did not have a material impact on the Company’s consolidated financial position, results of operations or disclosures.

In August 2018, the FASB issued ASU 2018-13, “*Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*.” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company adopted this standard which had no material effect on the Company’s consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12 “*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*.” The objective of this update is to simplify the accounting for income taxes by removing certain exceptions to the general principles and improve consistent application and simplify other areas of Topic 740. The amendments in this update are effective for annual periods beginning after December 15, 2020, and interim periods within those fiscal years. The Bank does not believe this update will have a material impact on its financial statements.

In March 2020, the FASB issued ASU 2020-04, *“Reference Rate Reform (Topic 848).”* This ASU provides optional means and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or other reference rates expected to be discontinued because of the reference rate reform. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The Company believes this update will not have a material impact on the consolidated financial statements.

(Dollars in thousands, unless otherwise stated)

Note 2. Business Acquisition

On July 10, 2020, the Company completed its acquisition of 100 percent of the shares of common stock of Mortgage World. The shareholders of Mortgage World received total consideration of $1,755 in cash. The acquisition was accounted for using the acquisition method of accounting, and accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. Mortgage World's results of operations have been included in the Company's Consolidated Statements of Income (Loss) since July 10, 2020.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management's best estimates, using information available at the date of the acquisition. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The Company did not recognize goodwill from the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Mortgage World:

	Fair Value
Fair value of acquisition consideration	$ 1,755
Assets:	
Cash and cash equivalents	750
Mortgage loans held for sale, at fair value	10,549
Premises and equipment, net	302
Other assets	772
Total assets	$ 12,373
Liabilities:	
Warehouse lines of credit	$ 9,135
Mortgage loans fundings payable	1,237
Other liabilities	246
Total Liabilities	$ 10,618
Net assets	$ 1,755

Note 3. Restrictions on Cash and Due From Banks

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The Bank had $24,540 and $5,935 in cash to cover its minimum reserve requirements of $0 and $4,927 at December 31, 2020 and 2019, respectively. Effective March 26, 2020, the Federal Reserve Board eliminated reserve requirement for depository institutions to support lending to households and businesses.

Cash and cash equivalents include Mortgage World restricted cash which consists of escrows due to HUD for upfront mortgage insurance premiums and escrows on unsold mortgages that are held on behalf of borrowers and good faith deposits received from commercial loan customers relating to the closing of a commercial loan. As of December 31, 2020, the total amount of restricted cash was $150 and were reflected on the consolidated statements of financial condition.

(Dollars in thousands, unless otherwise stated)

Note 4. Securities

The amortized cost, gross unrealized gains and losses, and fair value of securities at December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government and Federal Agencies	$ —	$ —	$ —	$ —
Corporate Bonds	10,381	95	(13)	10,463
Mortgage-Backed Securities:				
FHLMC Certificates	3,201		(5)	3,196
FNMA Certificates	3,506	61	—	3,567
GNMA Certificates	263	9	—	272
Total available-for-sale securities	$ 17,351	$ 165	$ (18)	$ 17,498
Held-to-Maturity Securities:				
FHLMC Certificates	$ 1,743	$ —	$ (21)	$ 1,722
Total held-to-maturity securities	$ 1,743	$ —	$ (21)	$ 1,722

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government and Federal Agencies	$ 16,373	$ —	$ (19)	$ 16,354
Mortgage-Backed Securities:				
FNMA Certificates	4,680	—	(21)	4,659
GNMA Certificates	482	9	—	491
Total available-for-sale securities	$ 21,535	$ 9	$ (40)	$ 21,504

There was one security that was classified as held-to-maturity as of December 31, 2020 and no securities that were classified as held-to-maturity as of December 31, 2019. There were no securities sold during the year ended December 31, 2020 and 2019. A total of $17,769 available-for-sale securities matured and/or were called during the year ended December 31, 2020. The Company purchased $13,625 in available-for-sale securities and $1,743 in held-to-maturity securities during the year ended December 31, 2020. A total of $39,555 of available-for-sale securities matured and/or were called during the year ended December 31, 2019. The Company purchased $30,000 of U.S. Treasury securities and $4,000 of mortgage-backed securities during the year ended December 31, 2019.

(Dollars in thousands, unless otherwise stated)

Note 4. Securities (Continued)

The following tables present the Company's securities' gross unrealized losses and fair values, aggregated by the length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019:

	December 31, 2020					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale Securities:						
U.S. Government and Federal Agencies	$ —	$ —	$ —	$ —	$ —	$ —
Corporate Bonds	1,717	(13)	—	—	1,717	(13)
Mortgage-Backed						
FHLMC Certificates	3,196	(5)	—	—	3,196	(5)
FNMA Certificates	—	—	—	—	—	—
Total available-for-sale securities	$ 4,913	$ (18)	$ —	$ —	$ 4,913	$ (18)
Held-to-Maturity Securities:						
FHLMC Certificates	$ 1,722	$ (21)	$ —	$ —	$ 1,722	$ (21)
Total held-to-maturity securities	$ 1,722	$ (21)	$ —	$ —	$ 1,722	$ (21)

	December 31, 2019					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale Securities:						
U.S. Government and Federal Agencies	$ —	$ —	$ 16,354	$ (19)	$ 16,354	$ (19)
Mortgage-Backed						
FNMA Certificates	—	—	4,659	(21)	4,659	(21)
Total available-for-sale securities	$ —	$ —	$ 21,013	$ (40)	$ 21,013	$ (40)

The Company’s investment portfolio had 8 and 10 available-for-sale securities at December 31, 2020 and 2019, respectively, and 1 and no held-to-maturity security at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the Company had 3 and 9 available-for-sale securities, respectively, with gross unrealized losses. Management reviewed the financial condition of the entities underlying the securities at both December 31, 2020 and 2019 and determined that they are not other than temporary impaired because the unrealized losses in those securities relate to market interest rate changes. The Company has the ability to hold them and does not have the intent to sell these securities, and it is not more likely than not that the Company will be required to sell these securities, before recovery of the cost basis. In addition, management also considers the issuers of the securities to be financially sound and believes the Company will receive all contractual principal and interest related to these investments.

(Dollars in thousands, unless otherwise stated)

Note 4. Securities (Continued)

The following is a summary of maturities of securities at December 31, 2020 and 2019. Amounts are shown by contractual maturity. Because borrowers for mortgage-backed securities have the right to prepay obligations with or without prepayment penalties, at any time, these securities are included as a total within the table.

	December 31, 2020	
	Amortized Cost	Fair Value
Available-for-Sale Securities:		
Corporate Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	2,651	2,728
More than five years through ten years	7,730	7,735
	10,381	10,463
Mortgage-Backed Securities	6,970	7,035
Total available-for-sale securities	$ 17,351	$ 17,498
Held-to-Maturity Securities:		
Mortgage-Backed Securities	$ 1,743	$ 1,722
Total held-to-maturity securities	$ 1,743	$ 1,722

The held-to-maturity securities will mature on October 1, 2050.

	December 31, 2019	
	Amortized Cost	Fair Value
Available-for-Sale Securities:		
U.S. Government and Federal Agency Securities:		
Amounts maturing:		
Three months or less	$ 2,000	$ 2,000
More than three months through one year	14,373	14,354
More one year through five years	—	—
More than five years through ten years	—	—
More ten years	—	—
	16,373	16,354
Mortgage-Backed Securities	5,162	5,150
Total available-for-sale securities	$ 21,535	$ 21,504

There were no securities pledged at December 31, 2020 and 2019.

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses

Loans at December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020	December 31, 2019
Mortgage loans:		
1-4 family residential		
Investor-Owned	$ 319,596	$ 305,272
Owner-Occupied	98,795	91,943
Multifamily residential	307,411	250,239
Nonresidential properties	218,929	207,225
Construction and land	105,858	99,309
Nonmortgage loans:		
Business loans	94,947	10,877
Consumer loans	26,517	1,231
	1,172,053	966,096
Net deferred loan origination costs	1,457	1,970
Allowance for loan losses	(14,870)	(12,329)
Loans receivable, net	$ 1,158,640	$ 955,737

The Company's lending activities are conducted principally in New York City. The Company primarily grants loans secured by real estate to individuals and businesses pursuant to an established credit policy applicable to each type of lending activity in which it engages. Although collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrowers' ability to generate continuing cash flows. The Company also evaluates the collateral and creditworthiness of each customer. The credit policy provides that depending on the borrowers’ creditworthiness and type of collateral, credit may be extended up to predetermined percentages of the market value of the collateral. Real estate is the primary form of collateral. Other important forms of collateral are time deposits and marketable securities.

For disclosures related to the allowance for loan losses and credit quality, the Company does not have any disaggregated classes of loans below the segment level.

Credit-Quality Indicators: Internally assigned risk ratings are used as credit-quality indicators, which are reviewed by management on a quarterly basis.

The objectives of the Company’s risk-rating system are to provide the Board of Directors and senior management with an objective assessment of the overall quality of the loan portfolio, to promptly and accurately identify loans with well-defined credit weaknesses so that timely action can be taken to minimize credit loss, to identify relevant trends affecting the collectability of the loan portfolio, to isolate potential problem areas and to provide essential information for determining the adequacy of the allowance for loan losses.

Below are the definitions of the Company's internally assigned risk ratings:

Strong Pass – Loans to new or existing borrowers collateralized at least 90 percent by an unimpaired deposit account at the Company.

Good Pass – Loans to a new or existing borrower in a well-established enterprise in excellent financial condition with strong liquidity and a history of consistently high level of earnings, cash flow and debt service capacity.

Satisfactory Pass – Loans to a new or existing borrower of average strength with acceptable financial condition, satisfactory record of earnings and sufficient historical and projected cash flow to service the debt.

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

Performance Pass – Loans that evidence strong payment history but document less than average strength, financial condition, record of earnings, or projected cash flows with which to service debt.

Special Mention – Loans in this category are currently protected but show one or more potential weaknesses and risks which may inadequately protect collectability or borrower's ability to meet repayment terms at some future date if the weakness or weaknesses are not monitored or remediated.

Substandard – Loans that are inadequately protected by the repayment capacity of the borrower or the current sound net worth of the collateral pledged, if any. Loans in this category have well defined weaknesses and risks that jeopardize their repayment. They are characterized by the distinct possibility that some loss may be sustained if the deficiencies are not remedied.

Doubtful – Loans that have all the weaknesses of loans classified as "Substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

Loans within the top four categories above are considered pass rated, as commonly defined. Risk ratings are assigned as necessary to differentiate risk within the portfolio. They are reviewed on an ongoing basis and revised to reflect changes in the borrowers' financial condition and outlook, debt service coverage capability, repayment performance, collateral value and coverage as well as other considerations.

The following tables present credit risk ratings by loan segment as of December 31, 2020 and 2019:

	December 31, 2020						
	Mortgage Loans				Nonmortgage Loans		
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Total Loans
Risk Rating:							
Pass	$ 406,993	$ 301,015	$ 213,882	$ 88,645	$ 94,947	$ 26,517	$ 1,131,999
Special mention	2,333	—	—	17,213	—	—	19,546
Substandard	9,065	6,396	5,047	—	—	—	20,508
Total	$ 418,391	$ 307,411	$ 218,929	$ 105,858	$ 94,947	$ 26,517	$ 1,172,053

	December 31, 2019						
	Mortgage Loans				Nonmortgage Loans		
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Total Loans
Risk Rating:							
Pass	$ 386,022	$ 249,066	$ 202,761	$ 75,997	$ 10,877	$ 1,231	$ 925,954
Special mention	2,412	—	—	14,943	—	—	17,355
Substandard	8,781	1,173	4,464	8,369	—	—	22,787
Total	$ 397,215	$ 250,239	$ 207,225	$ 99,309	$ 10,877	$ 1,231	$ 966,096

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

An aging analysis of loans, as of December 31, 2020 and 2019, is as follows:

	December 31, 2020						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total	Nonaccrual Loans	Over 90 Days Accruing
Mortgages:							
1-4 Family							
Investor-Owned	$ 313,960	$ 2,222	$ 1,507	$ 1,907	$ 319,596	$ 3,058	$ —
Owner-Occupied	95,775	1,572	348	1,100	98,795	3,250	—
Multifamily residential	305,325	1,140	—	946	307,411	946	—
Nonresidential properties	215,657	—	—	3,272	218,929	4,429	—
Construction and land	105,858	—	—	—	105,858	—	—
Nonmortgage Loans:							
Business	94,847	100	—	—	94,947	—	—
Consumer	25,529	497	316	175	26,517	—	—
Total	$ 1,156,951	$ 5,531	$ 2,171	$ 7,400	$ 1,172,053	$ 11,683	$ —

	December 31, 2019						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total	Nonaccrual Loans	Over 90 Days Accruing
Mortgages:							
1-4 Family							
Investor-Owned	$ 300,324	$ 3,866	$ —	$ 1,082	$ 305,272	$ 1,749	$ —
Owner-Occupied	87,243	3,405	—	1,295	91,943	3,500	—
Multifamily residential	246,318	3,921	—	—	250,239	—	—
Nonresidential properties	203,514	3	—	3,708	207,225	4,201	—
Construction and land	99,309	—	—	—	99,309	1,118	—
Nonmortgage Loans:					—		
Business	10,877	—	—	—	10,877	—	—
Consumer	1,231	—	—	—	1,231	—	—
Total	$ 948,816	$ 11,195	$ —	$ 6,085	$ 966,096	$ 10,568	$ —

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

The following schedules detail the composition of the allowance for loan losses and the related recorded investment in loans as of December 31, 2020, 2019, and 2018, respectively.

For the Year Ended December 31, 2020

	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
Allowances for loan losses:								
Balance, beginning of period	$ 3,503	$ 1,067	$ 3,865	$ 1,849	$ 1,782	$ 254	$ 9	$ 12,329
Provision charged to expense	347	193	1,349	341	38	(95)	270	2,443
Losses charged-off	—	—	—	—	—	—	(6)	(6)
Recoveries	—	—	—	4	—	95	5	104
Balance, end of period	$ 3,850	$ 1,260	$ 5,214	$ 2,194	$ 1,820	$ 254	$ 278	$ 14,870
Ending balance: individually evaluated for impairment	$ 118	$ 134	$ —	$ 40	$ —	$ —	$ —	$ 292
Ending balance: collectively evaluated for impairment	3,732	1,126	5,214	2,154	1,820	254	278	14,578
Total	$ 3,850	$ 1,260	$ 5,214	$ 2,194	$ 1,820	$ 254	$ 278	$ 14,870
Loans:								
Ending balance: individually evaluated for impairment	$ 7,468	$ 5,754	$ 946	$ 5,184	$ —	$ —	$ —	$ 19,352
Ending balance: collectively evaluated for impairment	312,128	93,041	306,465	213,745	105,858	94,947	26,517	1,152,701
Total	$ 319,596	$ 98,795	$ 307,411	$ 218,929	$ 105,858	$ 94,947	$ 26,517	$ 1,172,053

For the Year Ended December 31, 2019

	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
Allowances for loan losses:								
Balance, beginning of period	$ 3,799	$ 1,208	$ 3,829	$ 1,925	$ 1,631	$ 260	$ 7	$ 12,659
Provision charged to expense	(311)	(141)	36	(85)	151	608	—	258
Losses charged-off	(8)	—	—	—	—	(724)	—	(732)
Recoveries	23	—	—	9	—	110	2	144
Balance, end of period	$ 3,503	$ 1,067	$ 3,865	$ 1,849	$ 1,782	$ 254	$ 9	$ 12,329
Ending balance: individually evaluated for impairment	$ 265	$ 149	$ —	$ 31	$ —	$ 14	$ —	$ 459
Ending balance: collectively evaluated for impairment	3,238	918	3,865	1,818	1,782	240	9	11,870
Total	$ 3,503	$ 1,067	$ 3,865	$ 1,849	$ 1,782	$ 254	$ 9	$ 12,329
Loans:								
Ending balance: individually evaluated for impairment	$ 6,973	$ 5,572	$ —	$ 5,548	$ 1,125	$ 14	$ —	$ 19,232
Ending balance: collectively evaluated for impairment	298,299	86,371	250,239	201,677	98,184	10,863	1,231	946,864
Total	$ 305,272	$ 91,943	$ 250,239	$ 207,225	$ 99,309	$ 10,877	$ 1,231	$ 966,096

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

	For the Year Ended December 31, 2018							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
Allowances for loan losses:								
Balance, beginning of year	$ 3,716	$ 1,402	$ 3,109	$ 1,424	$ 1,205	$ 209	$ 6	$ 11,071
Provision charged to expense	82	(444)	720	492	426	(37)	10	1,249
Losses charged-off	—	—	—	—	—	(34)	(14)	(48)
Recoveries	1	250	—	9	—	122	5	387
Balance, end of year	$ 3,799	$ 1,208	$ 3,829	$ 1,925	$ 1,631	$ 260	$ 7	$ 12,659
Ending balance: individually evaluated for impairment	$ 349	$ 234	$ —	$ 35	$ —	$ —	$ —	$ 618
Ending balance: collectively evaluated for impairment	3,450	974	3,829	1,890	1,631	260	7	12,041
Total	$ 3,799	$ 1,208	$ 3,829	$ 1,925	$ 1,631	$ 260	$ 7	$ 12,659
Loans:								
Ending balance: individually evaluated for impairment	$ 6,452	$ 6,525	$ 16	$ 2,750	$ 1,108	$ 374	$ —	$ 17,225
Ending balance: collectively evaluated for impairment	296,745	86,263	232,493	194,167	86,464	15,336	1,068	912,536
Total	$ 303,197	$ 92,788	$ 232,509	$ 196,917	$ 87,572	$ 15,710	$ 1,068	$ 929,761

Loans are considered impaired when current information and events indicate all amounts due may not be collectable according to the contractual terms of the related loan agreements. Impaired loans, including troubled debt restructurings, are identified by applying normal loan review procedures in accordance with the allowance for loan losses methodology. Management periodically assesses loans to determine whether impairment exists. Any loan that is, or will potentially be, no longer performing in accordance with the terms of the original loan contract is evaluated to determine impairment.

The following information relates to impaired loans as of and for the years ended December 31, 2020, 2019, and 2018:

December 31, 2020	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on Cash Basis
Mortgages:							
1-4 Family	$ 14,118	$ 10,613	$ 2,609	$ 13,222	$ 252	$ 12,306	$ 321
Multifamily residential	946	946	—	946	—	231	34
Nonresidential properties	5,632	4,813	371	5,184	40	5,339	33
Construction and land	—	—	—	—	—	405	—
Nonmortgage Loans:							
Business	—	—	—	—	—	8	—
Consumer	—	—	—	—	—	—	—
Total	$ 20,696	$ 16,372	$ 2,980	$ 19,352	$ 292	$ 18,289	$ 388

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

December 31, 2019	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on Cash Basis
Mortgages:							
1-4 Family	$ 13,566	$ 8,390	$ 4,155	$ 12,545	$ 414	$ 12,995	$ 361
Multifamily residential	—	—	—	—	—	6	—
Nonresidential properties	5,640	5,173	375	5,548	31	3,988	121
Construction and land	1,465	1,125	—	1,125	—	1,219	6
Nonmortgage Loans:							
Business	16	—	14	14	14	195	—
Consumer	—	—	—	—	—	1	—
Total	$ 20,687	$ 14,688	$ 4,544	$ 19,232	$ 459	$ 18,404	$ 488

December 31, 2018	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on Cash Basis
Mortgages:							
1-4 Family	$ 12,985	$ 7,080	$ 5,898	$ 12,978	$ 583	$ 15,163	$ 758
Multifamily residential	16	16	—	16	—	36	3
Nonresidential properties	2,748	2,270	480	2,750	35	3,230	172
Construction and land	1,115	1,107	—	1,107	—	1,094	—
Nonmortgage Loans:							
Business	374	374	—	374	—	454	22
Consumer	—	—	—	—	—	—	—
Total	$ 17,238	$ 10,847	$ 6,378	$ 17,225	$ 618	$ 19,977	$ 955

The loan portfolio also includes certain loans that have been modified to troubled debt restructurings. Under applicable standards, loans are modified to troubled debt restructurings when a creditor, for economic or legal reasons related to a debtor’s financial condition, grants a concession to the debtor that it would not otherwise consider, unless it results in a delay in payment that is insignificant. These concessions could include a reduction of interest rate on the loan, payment and maturity extensions, forbearance, or other actions intended to maximize collections. When a loan is modified to a troubled debt restructuring, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs if repayment under the modified terms becomes doubtful. If management determines that the value of the modified loan in a troubled debt restructuring is less than the recorded investment in the loan, impairment is recognized through a specific allowance estimate or charge-off to the allowance for loan losses.

(Dollars in thousands, unless otherwise stated)

Note 5. Loans Receivable and Allowance for Loan Losses (Continued)

For the year ended December 31, 2020, there was no troubled debt restructured loan and for the year ended December 31, 2019, there was one loan modified to troubled debt restructured.

	Loans Restructured During Year Ended December 31, 2020			All TDRs with a payment default within 12 months following the modification	
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	—	$ —	$ —	—	$ —
Total	—	$ —	$ —	—	$ —
Combination of rate, maturity, other	—	$ —	$ —	—	$ —
Total	—	$ —	$ —	—	$ —

	Loans Restructured During Year Ended December 31, 2019			All TDRs with a payment default within 12 months following the modification	
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	1	$ 275	$ 283	—	$ —
Total	1	$ 275	$ 283	—	$ —
Combination of rate, maturity, other	1	$ 275	$ 283	—	$ —
Total	1	$ 275	$ 283	—	$ —

At December 31, 2020, there were 32 troubled debt restructured loans totaling $9,737 of which $6,637 are on accrual status. At December 31, 2019, there were 36 troubled debt restructured loans totaling $12,204 of which $8,601 were on accrual status. There were no commitments to lend additional funds to borrowers whose loans have been modified to troubled debt restructuring. The financial impact from the concessions made represents specific impairment reserves on these loans, which aggregated to $292 and $459 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, there was one loan in the amount of $1,030 held for sale related to the Bank. At December 31, 2020, 70 loans related to Mortgage World in the amount of $34,384 were held for sale and accounted for under the fair value option accounting guidance for financial assets and financial liabilities. Refer to Note 13 Fair Value for additional information.

Loan modifications and payment deferrals as a result of the COVID-19 pandemic that meet the criteria established under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators are excluded from evaluation of TDR classification and will continue to be reported as current during the payment deferral period. The Company’s policy is to continue to accrue interest during the deferral period. Loans that do not meet the CARES Act or regulatory guidance criteria are evaluated for TDR and non-accrual treatment under the Company’s existing policies and procedures. Through December 31, 2020, 412 loans aggregating $380,265 had received forbearance primarily consisting of the deferral of principal, interest, and escrow payments for at least a period of three months. Of those 412 loans, 339 loans aggregating $306,420 are no longer in deferment and continue performing and 73 loans in the amount of $73,845 remained in deferment. Of the 73 loans in deferment, 72 loans in the amount of $73,548 are in renewed forbearance and one loan in the amount of $297 is in its initial forbearance.

(Dollars in thousands, unless otherwise stated)

Note 6. Premises and Equipment

A summary of premises and equipment at December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Land	$ 3,897	$ 3,979
Buildings and improvements	17,119	17,350
Leasehold improvements	26,104	25,534
Furniture, fixtures and equipment	9,184	8,513
	56,304	55,376
Less accumulated depreciation and amortization	(24,259)	(22,630)
	$ 32,045	$ 32,746

Depreciation and amortization expense amounted to $2,519, $2,222 and $1,798 for the years ended December 31, 2020, 2019, and 2018, respectively, and are included in occupancy expense in the accompanying consolidated statements of income (loss). Furniture, fixtures and equipment increased by $671 to $9,184 at December 31, 2020, mainly as a result of renovations of premises and purchases of laptops and software to facilitate remote working during the COVID-19 pandemic. Leasehold improvements increased by $570 to $26,104 as part of the branch renovation initiative. Buildings and improvements decreased by $231 to $17,119 at December 31, 2020 mainly due to the sale of real property offset by increases to investments made to the branch network and other product delivery services as part of the branch renovation initiative. Land decreased by $82 to $3,897 at December 31, 2020 as a result of the sale of real property.

Note 7. Deposits

Deposits at December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020	December 31, 2019
Demand (1)	$ 189,855	$ 109,548
Interest-bearing deposits:		
NOW/IOLA accounts	39,296	32,866
Money market accounts	136,258	86,721
Reciprocal deposits	131,363	47,659
Savings accounts	125,820	115,751
Total NOW, money market, and savings	432,737	282,997
Certificates of deposit of $250K or more	78,435	84,263
Brokered certificates of deposit (2)	52,678	76,797
Listing service deposits (2)	39,476	32,400
Certificates of deposit less than $250K	236,398	196,038
Total certificates of deposit	406,987	389,498
Total interest-bearing deposits	839,724	672,495
Total deposits	$ 1,029,579	$ 782,043

(1) As of December 31, 2020, included in demand deposits were $43,494 related to net PPP funding and $1.8 million related to Grain.
(2) There were $26,957 in individual brokered certificates of deposit or listing service deposits amounting to $250 or more.

(Dollars in thousands, unless otherwise stated)

Note 7. Deposits (Continued)

At December 31, 2020, scheduled maturities of certificates of deposit were as follows:

December 31,		
2021	$	271,229
2022		82,043
2023		24,123
2024		11,036
2025		14,556
Thereafter		4,000
	$	406,987

Overdrawn deposit accounts that have been reclassified to loans amounted to $102 and $199 as of December 31, 2020 and 2019, respectively.

Note 8. Borrowings

FHLBNY Advances: As a member of FHLBNY, the Bank has the ability to borrow from the FHLBNY based on a certain percentage of the value of the Bank's qualified collateral, as defined in FHLBNY Statement of Credit Policy, at the time of the borrowing. In accordance with an agreement with FHLBNY, the qualified collateral must be free and clear of liens, pledges and encumbrances.

The Bank had $109,255 and $104,404 of outstanding term advances from FHLBNY at December 31, 2020 and 2019, respectively, and $8,000 of outstanding overnight advances at December 31, 2020 and none as of December 31, 2019. Additionally, the Bank has an unsecured line of credit in the amount of $25,000 with a correspondent bank of which none was outstanding at December 31, 2020 and 2019. The Bank also had a guarantee from the FHLBNY through letters of credit of up to $61,491 at December 31, 2020 and a letter of credit in the amount of $3,455 at December 31, 2019.

Borrowed funds at December 31, 2020 and 2019 consist of the following and are summarized by maturity and call date below:

	December 31, 2020			December 31, 2019		
	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate
FHLBNY overnight advances	$ 8,000	$ 8,000	0.34%	$ —	$ —	—%
FHLBNY term advances ending :						
2020	—	—	—	8,029	8,029	2.86
2021	3,000	3,000	1.84	3,000	3,000	1.84
2022	77,880	77,880	1.73	65,000	65,000	1.89
2023	28,375	28,375	2.82	28,375	28,375	2.82
	$ 117,255	$ 117,255	1.90%	$ 104,404	$ 104,404	2.21%

Interest expense on term advances totaled $2,538, $1,724, and $835 for the years ended December 31, 2020, 2019 and 2018, respectively. Interest expense on overnight advances totaled $173, $130, and $64 for the years ended December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, the Bank has eligible collateral of approximately $336,804 and $301,753, respectively, in mortgage loans available to secure advances from the FHLBNY.

(Dollars in thousands, unless otherwise stated)

Note 8. Borrowings (Continued)

Warehouse Lines of Credit: Mortgage World maintains two warehouse lines of credit with financial institutions for the purpose of funding the originations and sale of residential mortgages. The lines of credit are repaid with proceeds from the sale of the mortgage loans. The lines are secured by the assets collaterizing underlying mortgages. The agreements with the warehouse lenders provide for certain restrictive covenants such as minimum net worth and liquidity ratios for Mortgage World. All warehouse facilities are guaranteed by Mortgage World. As of December 31, 2020, Mortgage World was in full compliance with all financial covenants.

	Credit Line Maximum	Unused Line of Credit	Balance at December 31, 2020
Warehouse Line of Credit #1	$ 29,900	$ 2,171	$ 27,729
Warehouse Line of Credit #2	5,000	2,768	2,232
Total long-term debt	$ 34,900	$ 4,939	$ 29,961

Warehouse Line of Credit #1

The interest rate is based on the 30-day LIBOR rate plus 3.25%. The effective rate at December 31, 2020 was 3.39%. The line of credit is an evergreen agreement that terminates upon request by either the financial institution or the borrower.

Warehouse Line of Credit #2

The interest rate is based on the 30-day LIBOR rate plus 3.00% for loans funded by wires. The effective rate at December 31, 2020 was 3.14%. The warehouse line of credit is due to expire on June 30, 2021.

Mortgage Loan Funding Payable: Mortgage loan funding payable consists of liabilities to borrowers in connection with Mortgage World origination of residential loans originated and intended for sale in the secondary market, that remain unfunded because there is typically a three day period from when the loans close to when they are funded by the warehouse line of credit. This liability is presented at cost and fully offsets the principal balance of the related loans included in mortgage loans held for sale, at fair value on the consolidated statement of financial condition. At December 31, 2020, the balance of mortgage loan funding payable was $1,483.

Note 9. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2020, 2019, and 2018 consists of the following:

	For the Years Ended December 31,		
	2020	2019	2018
Federal:			
Current	$ 2,065	$ 878	$ 972
Deferred	(839)	(1,436)	37
	1,226	(558)	1,009
State and local:			
Current	281	296	333
Deferred	(353)	(3,002)	(1,011)
	(72)	(2,706)	(678)
Changes in valuation allowance	228	2,340	790
Provision (benefit) for income taxes	$ 1,382	$ (924)	$ 1,121

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% for 2020, 2019 and 2018 to income before income taxes as a result of the following:

(Dollars in thousands, unless otherwise stated)

Note 9. Income Taxes (Continued)

	For the Years Ended December 31,		
	2020	2019	2018
Income tax, at federal rate	$ 1,099	$ (1,270)	$ 799
State and local tax, net of federal taxes	(57)	(2,128)	(536)
Valuation allowance, net of the federal benefit	228	2,340	790
Other	112	134	68
Provision (benefit) for income taxes	$ 1,382	$ (924)	$ 1,121

Management maintains a valuation allowance against its net New York State and New York City deferred tax as it is unlikely these deferred tax assets will impact the Company's tax liability in future years. The valuation allowance increased by $228, $2,340 and $790 for the years ended December 31, 2020, 2019 and 2018, respectively.

Management has determined that it is not required to establish a valuation allowance against any other deferred tax assets in accordance with GAAP since it is more likely than not that the deferred tax assets will be fully utilized in future periods. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods that the temporary differences comprising the deferred tax assets will be deductible.

A financial institution may not carry back net operating losses (“NOL”) to earlier tax years. The NOL can be carried forward indefinitely. The use of NOL to offset income is limited to 80%. The CARES Act allows NOLs generated in 2018, 2019 and 2020 to be carried back to each of the five preceding tax years. The Bank, did not generate NOLs in 2018, 2019 or 2020 so no carryback is available. At December 31, 2020, the Bank had no federal NOL carryforwards.

The state and city of New York allow for a three-year carryback period and carryforward period of twenty years on net operating losses generated on or after tax year 2015. For tax years prior to 2015, no carryback period is allowed. Ponce De Leon Federal Bank, the predecessor of Ponce Bank, has pre-2015 carryforwards of $1,900 for New York State purposes and $1,800 for New York City purposes. Furthermore, there are post-2015 carryforwards available of $37,400 for New York State purposes and $19,400 for New York City purposes. Finally, for New Jersey purposes, losses may only be carried forward 20 years, with no allowable carryback period. At December 31, 2020, the Bank had no New Jersey net operating loss carryforwards.

At December 31, 2020 and 2019, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Company is subject to U.S. federal income tax, New York State income tax, Connecticut income tax, New Jersey income tax, Florida income tax, Pennsylvania income tax and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2017.

In 2018, the Company elected to early adopt ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The Company reclassified the income tax effects of Tax Cuts and Jobs Act of approximately $1,281 from accumulated other comprehensive income to retained earnings as presented in the consolidated statements of stockholders’ equity.

On March 27, 2020, the CARES Act was signed to help individuals and businesses that have been negatively impacted by the COVID-19 pandemic. Among other provisions, the CARES Act allows net operating losses, which were modified with the Tax Cuts and Jobs Act of 2017, to be carried back five years. It also modifies the useful lives of qualified leasehold improvements, relaxing the excess loss limitations on pass-through and increasing the interest expense limitation. The Company does not expect the CARES Act to have a material tax impact on the Company's consolidated financial statements.

(Dollars in thousands, unless otherwise stated)

Note 9. Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are presented below:

	At December 31,	
	2020	**2019**
Deferred tax assets:		
Allowance for losses on loans	$ 4,846	$ 3,990
Interest on nonaccrual loans	792	338
Unrealized loss on available-for-sale securities	—	7
Amortization of intangible assets	70	88
Deferred rent payable	120	—
Depreciation of premises and equipment	79	30
Net operating losses	3,990	4,258
Charitable contribution carryforward	1,366	1,675
Compensation and benefits	326	182
Other	78	130
Total gross deferred tax assets	11,667	10,698
Deferred tax liabilities:		
Cumulative contribution in excess of net periodic benefit costs, net	—	85
Deferred loan fees	475	638
Unrealized loss on available-for-sale securities	25	—
Other	39	7
Total gross deferred tax liabilities	539	730
Valuation allowance	6,472	6,244
Net deferred tax assets	$ 4,656	$ 3,724

The deferred tax expense (benefit) has been allocated between operations and equity as follows:

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Equity	$ 32	$ 2,186	$ 282
Operations	(964)	(2,099)	(184)
	$ (932)	$ 87	$ 98

(Dollars in thousands, unless otherwise stated)

Note 10. Compensation and Benefit Plans

401(k) Plan:

The Company provides a qualified defined contribution retirement plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan qualifies under the Internal Revenue Service safe harbor provisions, as defined. Employees are eligible to participate in the 401(k) Plan at the beginning of each quarter (January 1, April 1, July 1 or October 1). The 401(k) Plan provides for elective employee/participant deferrals of income. Discretionary matching, profit-sharing, and safe harbor contributions, not to exceed 4% of employee compensation and profit-sharing contributions may be provided. The Company is currently making a safe harbor contributions of 3%. The 401(k) expenses recorded in the consolidated statements of income (loss) amounted to $580, $331 and $363 for the years ended December 31, 2020, 2019 and 2018, respectively.

Employee Stock Ownership Plan:

In connection with the reorganization, the Company established an Employee Stock Ownership Plan (ESOP) for the exclusive benefit of eligible employees. The ESOP borrowed $7,238 from the Company, sufficient to purchase 723,751 shares (approximately 3.92% of the common stock sold in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Company and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, and then the remainder will be applied to principal. The loan is expected to be repaid over a period of 15 years. Shares purchased with the loan proceeds are held by the trustee in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants, subject to applicable regulations.

Contributions to the ESOP are to be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, compensation expense equal to the average market price of the shares for the respective period are recognized, and the unallocated shares are taken into consideration when computing earnings per share (see Note 11).

A summary of the ESOP shares as of December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Shares committed-to-be released	48,250	48,250
Shares allocated to participants	129,270	96,500
Unallocated shares	530,751	579,001
Total	708,271	723,751
Fair value of unallocated shares	$ 5,578	$ 8,511

The Company recognized ESOP related compensation expense, including ESOP equalization expense, of $538, $766 and $615 for the years ended December 31, 2020, 2019 and 2018, respectively.

Supplemental Executive Retirement Plan:

The Company maintains a non-qualified supplemental executive retirement plan ("SERP") for the benefit of one key executive officer. The SERP expenses recognized were $59, $62, and $61 for the years ended December 31, 2020, 2019 and 2018, respectively.

(Dollars in thousands, unless otherwise stated)

Note 10. Compensation and Benefit Plans (Continued)

2018 Incentive Plan

The Company's stockholders approved the PDL Community Bancorp 2018 Long-Term Incentive Plan (the "2018 Incentive Plan") at the Special Meeting of Stockholders on October 30, 2018. The maximum number of shares of common stock which can be issued under the 2018 Incentive Plan is 1,248,469. Of the 1,248,469 shares, the maximum number of shares that may be awarded under the 2018 Incentive Plan pursuant to the exercise of stock options or stock appreciation rights ("SARs") is 891,764 shares (all of which may be granted as incentive stock options), and the number of shares of common stock that may be issued as restricted stock awards or restricted stock units is 356,705 shares. However, the 2018 Incentive Plan contains a flex feature that provides that awards of restricted stock and restricted stock units in excess of the 356,705 share limitation may be granted but each share of stock covered by such excess award shall reduce the 891,764 share limitation for awards of stock options and SARs by 3.0 shares of common stock. The Company converted 462,522 awards of stock options into 154,174 restricted stock units in 2018 and 45,000 awards of stock options into 15,000 restricted stock units in 2020.

Under the 2018 Incentive Plan, the Company made grants equal to 674,645 shares on December 4, 2018 which include 119,176 incentive options to executive officers, 44,590 non-qualified options to outside directors, 322,254 restricted stock units to executive officers, 40,000 restricted stock units to non-executive officers and 148,625 restricted stock units to outside directors. During the year ended December 31, 2020, the Company awarded 40,000 incentive options and 15,000 restricted stock units to non-executive officers under the 2018 Incentive Plan. Awards to directors generally vest 20% annually beginning with the first anniversary of the date of grant. Awards to a director with fewer than five years of service at the time of grant vest over a longer period and will not become fully vested until the director has completed ten years of service. Awards to the executive officer who is not a director vest 20% annually beginning on December 4, 2020. As of December 31, 2020 and 2019, the maximum number of stock options and SARs remaining to be awarded under the Incentive Plan was 189,476 and 265,476, respectively. As of December 31, 2020 and 2019 the maximum number of shares of common stock that may be issued as restricted stock awards or restricted stock units remaining to be awarded under the Incentive Plan was none for both years. If the 2018 Incentive Plan's flex feature described above were fully utilized, the maximum number of shares of common stock that may be awarded as restricted stock awards or restricted stock units would be 63,159 and 88,492 as of December 31, 2020 and 2019, respectively, but would eliminate the availability of stock options and SARs available for award.

The product of the number of units granted and the grant date market price of the Company's common stock determine the fair value of restricted stock units under the Company's 2018 Incentive Plan. Management recognizes compensation expense for the fair value of restricted stock units on a straight-line basis over the requisite service period for the entire award.

A summary of the Company's restricted stock units activity and related information for the year ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested, beginning of year	420,744	$ 12.78
Granted	15,000	10.05
Forfeited	(3,000)	12.77
Vested	(96,825)	12.77
Non-vested at December 31	335,919	$ 12.66

(Dollars in thousands, unless otherwise stated)

Note 10. Compensation and Benefit Plans (Continued)

	December 31, 2019	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested, beginning of year	510,879	$ 12.77
Granted	29,725	12.93
Forfeited	(29,725)	12.77
Vested	(90,135)	12.77
Non-vested at December 31	420,744	$ 12.78

Compensation expense related to restricted stock units for the years ended December 31, 2020, 2019 and 2018 was $1,276, $1,155 and $91, respectively. As of December 31, 2020, the total remaining unrecognized compensation cost related to restricted stock units was $4,119, which is expected to be recognized over the next 28 quarters.

A summary of the Company's stock options activity and related information for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	
	Options	Weighted-Average Exercise Price Per Share
Outstanding, beginning of year	163,766	$ 12.78
Granted	40,000	8.93
Exercised	—	—
Forfeited	—	—
Outstanding, end of year (1)	203,766	$ 12.02
Exercisable, end of year (1)	55,938	$ 12.77

	December 31, 2019	
	Options	Weighted-Average Exercise Price Per Share
Outstanding, beginning of year	163,766	$ 12.77
Granted	8,918	12.93
Exercised	—	—
Forfeited	(8,918)	12.77
Outstanding, end of year (1)	163,766	$ 12.78
Exercisable, end of year (1)	24,788	$ 12.77

(1) The aggregate intrinsic value, which represents the difference between the price of the Company's common stock at respective periods and the stated exercise price of the underlying options, was $0 and $315 for outstanding options and $0 and $48 for exercisable options at December 31, 2020 and 2019, respectively.

(Dollars in thousands, unless otherwise stated)

Note 10. Compensation and Benefit Plans (Continued)

The weighted-average exercise price for outstanding options as of December 31, 2020 was $12.02 per share and the weighted-average remaining contractual life is 7.8 years. The weighted-average period over which it is expected to be recognized is 4.7 years. There were 55,938 shares exercisable as of December 31, 2020. Total compensation costs related to stock options recognized was $127, $101 and $7 for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, the total remaining unrecognized compensation cost related to unvested stock options was $486, which is expected to be recognized over the next 28 quarters.

The fair value of each option grant is estimated on the date of grant using Black-Scholes option pricing model with the following weighted average assumptions:

	For the Years Ended December 31,	
	2020	**2019**
Dividend yield	0.00%	0.00%
Expected life	6.5 years	6.5 years
Expected volatility	38.51%	16.94%
Risk-free interest rate	0.48%	2.51%
Weighted average grant date fair value	$ 3.77	$ 4.01

The expected volatility is based on the stock's historical volatility. The expected life is an estimate based on management's review of the various factors and calculated using the simplified method for plain vanilla options. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Defined Benefit Plan:

On May 31, 2019, the Company's Board of Directors approved the termination of the Defined Benefit Plan which was liquidated on December 1, 2019. The benefit obligations settled by the lump sum payments and annuity contracts resulted in payments from plan assets of approximately $13,858. The remaining previously unrecognized losses in accumulated other comprehensive loss relating to the Defined Benefit Plan were recognized as an expense and a pre-tax charge of approximately $9,930 ($7,844 million after-tax) was recorded in other income (expense), net, in our consolidated statements of income (loss) during the fourth quarter of 2019.

The following table sets forth the Defined Benefit Plan's funded status and amounts recognized in the consolidated statements of financial conditions as of December 31, 2020 and 2019 using a measurement date as of December 31, 2019.

	December 31,	
	2020	**2019**
Projected benefit obligation	$ —	$ —
Fair value of plan assets	—	261
Funded status	$ —	$ 261
Accumulated benefit obligation	$ —	$ —

	December 31,	
	2020	**2019**
Changes in benefit obligation:		
Beginning of period	$ —	$ 14,244
Service cost	—	39
Interest cost	—	589
Lump sum and annuity purchase	—	(13,858)
Interest rate change	—	2,787
Mortality change	—	—
(Gain)/ Loss	—	(3,130)
Administrative cost	—	(39)
Benefits paid	—	(632)
End of period	$ —	$ —

(Dollars in thousands, unless otherwise stated)

Note 10. Compensation and Benefit Plans (Continued)

	December 31,	
	2020	2019
Changes in plan assets:		
Fair value of plan assets, beginning of year	$ —	$ 14,416
Actual return on plan assets	—	374
Lump sum and annuity purchase	—	(13,858)
Benefits paid	—	(632)
Administrative expenses paid	—	(39)
Fair value of plan assets, end of year	$ —	$ 261

The components of net periodic benefit cost are as follows for the years ended December 31, 2020, 2019 and 2018:

	For the Years Ended December 31,		
	2020	2019	2018
Service cost	$ —	$ 39	$ 39
Interest cost	—	589	542
Expected return on plan assets	—	(842)	(860)
Amortization of prior service cost	—	25	25
Amortization of loss	—	259	299
Net periodic benefit cost	$ —	$ 70	$ 45

Treasury Stock:

The Company adopted a share repurchase program effective March 25, 2019 which expired on September 24, 2019. Under the repurchase program, the Company was authorized to repurchase up to 923,151 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. On November 13, 2019, the Company adopted a second share repurchase program. Under this second program, the Company was authorized to repurchase up to 878,835 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The Company's second share repurchase program was terminated on March 27, 2020 in response to the uncertainty related to the unfolding COVID-19 pandemic. On June 1, 2020, the Company adopted a third share repurchase program. Under this third program, the Company was authorized to repurchase up to 864,987 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The Company's third share repurchase program expired on November 30, 2020. On December 14, 2020, the Company adopted a fourth share repurchase program. Under this fourth program, the Company is authorized to repurchase up to 852,302 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. The fourth repurchase program may be suspended or terminated at any time without prior notice, and it will expire no later than June 13, 2021.

As of December 31, 2020, the Company had repurchased a total of 1,523,853 shares under the repurchase programs at a weighted average price of $13.43 per share, of which 1,337,059 shares are reported as treasury stock. Of the 1,523,853 shares repurchased, a total of 186,960 shares have been used for grants given to directors, executive officers and non-executive officers under the Company's 2018 Long-Term Incentive Plan pursuant to restricted stock units which vested on December 4, 2020 and 2019. Of the 186,960 shares, 166 shares were retained to satisfy a recipient's taxes and other withholding obligations and these shares remain as part of treasury stock.

Note 11. Earnings Per Common Share

The following table presents a reconciliation of the number of common shares used in the calculation of basic and diluted earnings per common share:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands except share data)		
Net income (loss)	$ 3,853	$ (5,125)	$ 2,677
Common shares outstanding for basic EPS:			
Weighted average common shares outstanding	17,233,901	18,039,640	18,463,028
Less: Weighted average unallocated Employee Stock Ownership Plan (ESOP) shares	560,708	607,322	657,159
Basic weighted average common shares outstanding	16,673,193	17,432,318	17,805,869
Basic earnings (loss) per common share	$ 0.23	$ (0.29)	$ 0.15
Dilutive potential common shares:			
Add: Dilutive effect of restricted stock awards	9,391	—	6,337
Diluted weighted average common shares outstanding	16,682,584	17,432,318	17,812,206
Diluted earnings (loss) per common share	$ 0.23	$ (0.29)	$ 0.15

Note 12. Commitments, Contingencies and Credit Risk

Financial Instruments With Off-Balance-Sheet Risk: In the normal course of business, financial instruments with off-balance-sheet risk may be used to meet the financing needs of customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on the consolidated statements of financial condition. The contractual amounts of these instruments reflect the extent of involvement in particular classes of financial instruments.

Commitments to Sell Loans at Lock-in Rates: In order to assure itself of a marketplace to sell its loans, Mortgage World has agreements with investors who will commit to purchase loans at locked-in rates. Mortgage World has off-balance sheet market risk to the extent that Mortgage World does not obtain matching commitments from these investors to purchase the loans. This will expose Mortgage World to the lower of cost or market valuation environment.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The same credit policies are used in making commitments and contractual obligations as for on-balance-sheet instruments.

Financial instruments whose contractual amounts represent credit risk at December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
Commitments to grant mortgage loans	$ 101,722	$ 64,829
Commitments to sell loans at lock-in rates	11,276	—
Unfunded commitments under lines of credit	38,261	27,833
Letters of credit	—	3,455
	$ 151,259	$ 96,117

(Dollars in thousands, unless otherwise stated)

Note 12. Commitments, Contingencies and Credit Risk (Continued)

Commitments to Grant Mortgage Loans: Commitments to grant mortgage loans are agreements to lend to a customer as long as all terms and conditions are met as established in the contract. Commitments generally have fixed expiration dates or other termination clauses, and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. Material losses are not anticipated as a result of these transactions.

Repurchases, Indemnifications and Premium Recaptures: Loans sold by Mortgage World under investor programs are subject to repurchase or indemnification if they fail to meet the origination criteria of those programs. In addition, loans sold to investors are also subject to repurchase or indemnifications if the loan is two or three months delinquent during a set period which usually varies from six months to a year after the loan is sold. There are no open repurchase or indemnification requests for loans sold as a correspondent lender or where the Company acted as a broker in the transaction as of December 31, 2020.

Unfunded Commitments Under Lines of Credit: Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extension of credit to existing customers. These lines of credit are both uncollateralized and usually contain a specified maturity date and, ultimately, may not be drawn upon to the total extent to which the Company is committed.

Letters of Credit: Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Letters of credit are largely cash secured.

Concentration by Geographic Location: Loans, commitments to extend credit and letters of credit have been granted to customers who are located primarily in New York City. The majority of such loans most often are secured by one-to-four family residential. The loans are expected to be repaid from the borrowers' cash flows.

Loan Concentrations: As of December 31, 2020, approximately 4.7% of Mortgage World total originated loan volume was insured and approximately 83.0% of total originated loan volume was sold to three investors. Mortgage World is permitted to close loans in five states and has closed approximately 98.6% of its loan volume in two states.

Lease Commitments: At December 31, 2020, there were noncancelable operating leases for office space that expire on various dates through 2036. One such lease contains an escalation clause providing for increased rental based primarily on increases in real estate taxes. Rental expenses under operating leases, included in occupancy expense, totaled $1,475, $1,490, and $1,440 for the years ended December 31, 2020, 2019, and 2018, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2020 are as follows:

December 31,		
2021	$	1,633
2022		1,525
2023		1,535
2024		1,516
2025		1,434
Thereafter		6,238
	$	13,881

Legal Matters: The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company’s financial condition or results of operations.

Note 13. Fair Value

The following fair value hierarchy is used based on the lowest level of input significant to the fair value measurement. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Cash and Cash Equivalents, Placements with Banks, Accrued Interest Receivable, Advance Payments by Borrowers for Taxes and Insurance, and Accrued Interest Payable: The carrying amount is a reasonable estimate of fair value. These assets and liabilities were not recorded at fair value on a recurring basis.

Available-for-Sale Securities: These financial instruments are recorded at fair value in the consolidated financial statements on a recurring basis. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (e.g., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities. Level 3 securities are securities for which significant unobservable inputs are utilized. There were no changes in valuation techniques used to measure similar assets during the period.

Held to Maturity Securities: The fair values of the Company's held-to-maturity securities are obtained from a third party pricing service that utilizes market prices of similar securities where available or utilizing models such as discounted cash flow analysis.

FHLBNY Stock: The carrying value of FHLBNY stock approximates fair value since the Company can redeem such stock with FHLBNY at cost. As a member of the FHLBNY, the Company is required to purchase this stock, which we carry at cost and classified as restricted equity securities.

Loans Receivable: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. Impaired loans are valued using a present value discounted cash flow method, or the fair value of the collateral. Loans are not recorded at fair value on a recurring basis.

Mortgage Loans Held for Sale: Mortgage loans held for sale, at fair value, consists primarily of mortgage loans originated for sale by Mortgage World and accounted for under the fair value option. These assets are valued using stated investor pricing for substantially equivalent loans as Level 2. In determining fair value, such measurements are derived based on observable market data, investor commitments, or broker quotations, including whole-loan transaction pricing and similar market transactions adjusted for portfolio composition, servicing value and market conditions. The fair value for mortgage loans held for sale not committed to an investor is generally based on current delivery prices using best execution pricing. Loans held for sale by the Bank are carried at the lower of cost or fair value as determined by investor bid prices.

Under the fair value option, management has elected, on an instrument-by-instrument basis, fair value accounting for substantially all forms of mortgage loans originated for sale on a recurring basis. The fair value carrying amount of mortgages held for sale under the fair value option was $35,637 and the aggregate unpaid principal balance amounted to $34,376.

Interest Rate Lock Commitments: Mortgage World enters into rate lock commitments to extend credit to borrowers for generally up to a 60 day period for origination and/or purchase of loans. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these loan commitments expose Mortgage World to variability in its fair value due to changes in interest rates.

(Dollars in thousands, unless otherwise stated)

Note 13. Fair Value (Continued)

The FASB determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in net gain or loss on sale of mortgage loans. Fair value is based on active market pricing for substantially similar underlying mortgage loans commonly referred to as best execution pricing or investment commitment pricing, if the loan is committed to an investor through a best efforts contract. In valuing interest rate lock commitments, there are several unobservable inputs such as the fair value of the mortgage servicing rights, estimated remaining cost to originate the loans, and the pull through rate of the open pipeline. Accordingly, such derivative is classified as Level 3.

The approximate notional amounts of Mortgage World’s derivative instruments was $11,276 at December 31, 2020. The fair value of derivatives related to interest rate lock commitments not subject to a forward loan sale commitment, amounted to $166 as of December 31, 2020 and is included in other assets on the consolidated statements of financial position.

The table below presents the changes in derivatives from interest rate lock commitments that are measured at fair value on a recurring basis:

Balance as of July 10, 2020	$	—
Change in fair value of derivative instrument reported in earnings		166
Balance as of December 31, 2020	$	166

Other Real Estate Owned: Other real estate owned represents real estate acquired through foreclosure, and is recorded at fair value less estimated disposal costs on a nonrecurring basis. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the asset is classified as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the asset is classified as Level 3.

Deposits: The fair values of demand deposits, savings, NOW, reciprocal deposits and money market accounts equal their carrying amounts, which represent the amounts payable on demand at the reporting date. Fair values for fixed-term, fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on certificates of deposit to a schedule of aggregated expected monthly maturities on such deposits. Deposits are not recorded at fair value on a recurring basis.

FHLBNY Advances: The fair value of the advances is estimated using a discounted cash flow calculation that applies current market-based FHLBNY interest rates for advances of similar maturity to a schedule of maturities of such advances. These borrowings are not recorded at fair value on a recurring basis.

Warehouse Lines of Credit, Mortgage Loan Fundings Payable: The carrying amounts of warehouse lines of credit and mortgage loan fundings payable approximate fair value and due to their short-term nature are classified as Level 2.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet instruments (lending commitments and letters of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2020 and 2019, and indicate the level within the fair value hierarchy utilized to determine the fair value:

(Dollars in thousands, unless otherwise stated)

Note 13. Fair Value (Continued)

Description	Total	December 31, 2020 Level 1	Level 2	Level 3
Available-for-Sale Securities:				
Corporate bonds	10,463	—	10,463	—
Mortgage-Backed Securities:				
FHLMC Certificates	3,196	—	3,196	—
FNMA Certificates	3,567	—	3,567	—
GNMA Certificates	272	—	272	—
Mortgage loans held for sale, at fair value	35,406	—	35,406	—
Derivatives from interest rate lock commitments	166	—	—	166
	$ 53,070	$ —	$ 52,904	$ 166

Description	Total	December 31, 2019 Level 1	Level 2	Level 3
Available-for-Sale Securities:				
U.S. government and federal agencies	$ 16,354	$ —	$ 16,354	$ —
Mortgage-Backed Securities:				
FNMA Certificates	4,659	—	4,659	—
GNMA Certificates	491	—	491	—
	$ 21,504	$ —	$ 21,504	$ —

Our assessment and classification of a financial instrument within a level can change over time based upon maturity or liquidity of the investment and would be reflected at the beginning of the quarter in which the change occurred.

The following tables detail the assets carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019 and indicate the fair value hierarchy utilized to determine the fair value:

	December 31, 2020 Total	Level 1	Level 2	Level 3
Impaired loans	$ 19,352	$ —	$ —	$ 19,352

	December 31, 2019 Total	Level 1	Level 2	Level 3
Impaired loans	$ 19,232	$ —	$ —	$ 19,232

Losses on assets carried at fair value on a nonrecurring basis were de minimis for the years ended December 31, 2020 and 2019, respectively.

(Dollars in thousands, unless otherwise stated)

Note 13. Fair Value (Continued)

As of December 31, 2020 and 2019, the book balances and estimated fair values of the Company's financial instruments were as follows:

	Carrying	Fair Value Measurements			
December 31, 2020	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash and cash equivalents	$ 72,078	$ 72,078	$ —	$ —	$ 72,078
Available-for-sale securities, at fair value	17,498	—	17,498	—	17,498
Held-to-maturity securities, at amortized cost	1,743	—	1,722	—	1,722
Placements with banks	2,739	—	2,739	—	2,739
Mortgage loans held for sale, at fair value	35,406	—	35,406	—	35,406
Loans receivable, net	1,158,640	—	—	1,182,971	1,182,971
Accrued interest receivable	11,396	—	11,396	—	11,396
FHLBNY stock	6,426	6,426	—	—	6,426
Financial liabilities:					
Deposits:					
Demand deposits	189,855	189,855	—	—	189,855
Interest-bearing deposits	432,737	432,737	—	—	432,737
Certificates of deposit	406,987	—	411,742	—	411,742
Advance payments by borrowers for taxes and insurance	7,019	—	7,019	—	7,019
Advances from FHLBNY	117,255	—	119,248	—	119,248
Warehouse lines of credit	29,961	—	29,961	—	29,961
Mortgage loan fundings payable	1,483	—	1,483	—	1,483
Accrued interest payable	60	—	60	—	60
December 31, 2019					
Financial assets:					
Cash and cash equivalents	$ 27,677	$ 27,677	$ —	$ —	$ 27,677
Available-for-sale securities	21,504	—	21,504	—	21,504
Mortgage loans held for sale, at fair value	1,030	—	1,030	—	1,030
Loans receivable, net	955,737	—	—	959,942	959,942
Accrued interest receivable	3,982	—	3,982	—	3,982
FHLBNY stock	5,735	5,735	—	—	5,735
Financial liabilities:					
Deposits:					
Demand deposits	109,548	109,548	—	—	109,548
Interest-bearing deposits	282,997	282,997	—	—	282,997
Certificates of deposit	389,498	—	393,254	—	393,254
Advance payments by borrowers for taxes and insurance	6,348	—	6,348	—	6,348
Advances from FHLBNY	104,404	—	104,195	—	104,195
Accrued interest payable	97	—	97	—	97

Off-Balance-Sheet Instruments: There were no loan commitments on which the committed interest rate is less than the current market rate at December 31, 2020 and 2019.

The fair value information about financial instruments are disclosed, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair value amounts for 2020 and 2019 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each period.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other banks may not be meaningful.

(Dollars in thousands, unless otherwise stated)

Note 14. Regulatory Capital Requirements

The Company, the Bank and Mortgage World are subject to various regulatory capital requirements administered by the Federal Reserve Board, the OCC, the U.S. Department of Housing and Urban Development, and the NYS Department of Financial Services, respectively. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's operations and financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require the maintenance of minimum amounts and ratios (set forth in the table below) of total risk-based and Tier 1 capital to risk-weighted assets (as defined), common equity Tier 1 capital (as defined), and Tier 1 capital to adjusted total assets (as defined). As of December 31, 2020 and 2019, all applicable capital adequacy requirements have been met.

The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was phased in to 2.5% by 2019. The applicable capital buffer was 7.95% and 10.6% at December 31, 2020 and 2019, respectively.

The most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There were no conditions or events since then that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 as compared to regulatory requirements are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2020						
PDL Community Bancorp						
Total Capital to Risk-Weighted Assets	$ 171,578	17.68%	$ 77,644	8.00%	$ 97,055	10.00%
Tier 1 Capital to Risk-Weighted Assets	159,410	16.42%	58,233	6.00%	77,644	8.00%
Common Equity Tier 1 Capital Ratio	159,410	16.42%	43,675	4.50%	63,086	6.50%
Tier 1 Capital to Total Assets	159,410	13.34%	47,814	4.00%	59,768	5.00%
Ponce Bank						
Total Capital to Risk-Weighted Assets	$ 153,951	15.95%	$ 77,213	8.00%	$ 96,516	10.00%
Tier 1 Capital to Risk-Weighted Assets	141,850	14.70%	57,909	6.00%	77,213	8.00%
Common Equity Tier 1 Capital Ratio	141,850	14.70%	43,432	4.50%	62,735	6.50%
Tier 1 Capital to Total Assets	141,850	11.19%	50,715	4.00%	63,394	5.00%

(Dollars in thousands, unless otherwise stated)

Note 14. Regulatory Capital Requirements (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
PDL Community Bancorp						
Total Capital to Risk-Weighted Assets	$ 168,268	21.35%	$ 63,044	8.00%	$ 78,805	10.00%
Tier 1 Capital to Risk-Weighted Assets	158,382	20.10%	47,283	6.00%	63,044	8.00%
Common Equity Tier 1 Capital Ratio	158,382	20.10%	35,462	4.50%	51,223	6.50%
Tier 1 Capital to Total Assets	158,382	14.97%	42,334	4.00%	52,917	5.00%
Ponce Bank						
Total Capital to Risk-Weighted Assets	$ 146,451	18.62%	$ 62,923	8.00%	$ 78,654	10.00%
Tier 1 Capital to Risk-Weighted Assets	136,584	17.37%	47,192	6.00%	62,923	8.00%
Common Equity Tier 1 Capital Ratio	136,584	17.37%	35,394	4.50%	51,125	6.50%
Tier 1 Capital to Total Assets	136,584	12.92%	42,275	4.00%	52,843	5.00%

Mortgage World is subject to various net worth requirements in connection with regulatory authorities and lending agreements that Mortgage World has entered with purchase facility lenders. Failure to maintain minimum capital requirements could result in Mortgage World's inability to originate and service loans, and, therefore, could have a direct material effect on the Company's consolidated financial statements.

Mortgage World's minimum net worth requirements as of December 31, 2020 are reflected below:

	Minimum Requirement
HUD	$ 1,000
New York Department of Financial Services	250
Other State Banking Departments	250

As of December 31, 2020, Mortgage World is in compliance with all minimum capital requirements.

Note 15. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows:

	December 31, 2020		
	December 31, 2019	Change	December 31, 2020
Unrealized gain on securities available for sale, net	$ 20	$ 115	$ 135
Total	$ 20	$ 115	$ 135

	December 31, 2019		
	December 31, 2018	Change	December 31, 2019
Unrealized gains (losses) on available-for-sale securities, net	$ (291)	$ 311	$ 20
Unrealized losses on pension benefits, net	(7,844)	7,844	—
Total	$ (8,135)	$ 8,155	$ 20

(Dollars in thousands, unless otherwise stated)

Note 16. Transactions with Related Parties

Directors and officers of the Company have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Aggregate loan transactions with related parties for the years ended December 31, 2020, 2019, and 2018 were as follows:

	For the Years Ended December 31,		
	2020	2019	2018
Beginning balance	$ 1,260	$ 1,278	$ 1,351
Originations	—	60	400
Payments	(1,033)	(78)	(473)
Ending balance	$ 227	$ 1,260	$ 1,278

The Company held deposits in the amount of $6,847 and $8,302 from officers and directors at December 31, 2020 and 2019, respectively.

Note 17. Parent Company Only Financial Statements

The following are the financial statements of the Parent as of and for the years ended December 31, 2020 and 2019.

	December 31,	
ASSETS	**2020**	**2019**
Cash and cash equivalents	$ 3,770	$ 13,363
Investment in Ponce Bank	141,985	136,603
Investment in Mortgage World	5,297	—
Investment in Grain	500	—
Loan receivable - ESOP	5,469	5,894
Loan receivable - Foundation	—	606
Other assets	2,790	2,409
Total assets	$ 159,811	$ 158,875
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities and accrued expenses	$ 267	$ 473
Stockholders' equity	159,544	158,402
Total liabilities and stockholders' equity	$ 159,811	$ 158,875

	For the Years Ended December 31,	
	2020	2019
Interest on ESOP loan	$ 153	$ 164
Interest on certificates of deposit	—	90
Interest on other deposits	86	182
Net interest income	239	436
Share-based compensation expense	1,403	1,256
Management fee expense	514	411
Office occupancy and equipment	55	60
Professional fees	1,625	1,255
Other noninterest expenses	67	115
Total noninterest expense	3,664	3,097
Loss before income taxes	(3,425)	(2,661)
Benefit for income taxes	(659)	(533)
Equity in undistributed earnings of Ponce Bank and Mortgage World	6,619	(2,997)
Net income (loss)	$ 3,853	$ (5,125)

Note 17. Parent Company Only Financial Statements (Continued)

	For the Years Ended December 31, 2020	2019
Cash Flows from Operating Activities:		
Net income (loss)	$ 3,853	$ (5,125)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(6,619)	2,997
Deferred income tax	(659)	598
Share-based compensation expense	1,403	1,256
Decrease (increase) in other assets	913	(918)
Net increase (decrease) in other liabilities	(840)	(357)
Net cash used in operating activities	(1,949)	(1,549)
Cash Flows from Investing Activities:		
Investment in Mortgage World	(3,464)	—
Investment in Grain	(500)	—
Loan to Foundation	606	(606)
Repayment of ESOP Loan	425	414
Net cash used in investing activities	(2,933)	(192)
Cash Flows from Financing Activities:		
Repurchase of treasury shares	(4,711)	(15,763)
Net cash used in financing activities	(4,711)	(15,763)
Net decrease in cash and cash equivalents	(9,593)	(17,504)
Cash and cash equivalents at beginning of year	13,363	30,867
Cash and cash equivalents at end of year	$ 3,770	$ 13,363

Note 18. Quarterly Financial Information (unaudited)

	2020 Fourth	2020 Third	2020 Second	2020 First	2019 Fourth	2019 Third	2019 Second	2019 First
	(Dollars in thousands except share data)							
Net interest income	$ 11,674	$ 10,851	$ 9,521	$ 9,924	$ 9,562	$ 9,765	$ 9,344	$ 9,462
Provision for loan losses	406	620	271	1,146	95	14	—	149
Net interest income after provision for loan losses	11,268	10,231	9,250	8,778	9,467	9,751	9,344	9,313
Noninterest income	4,799	7,252	574	622	665	579	686	753
Noninterest expense	13,955	12,327	10,435	10,822	19,475	9,334	8,707	9,091
Income (loss) before income taxes	2,112	5,156	(611)	(1,422)	(9,343)	996	1,323	975
Provision (benefit) for income taxes	484	1,147	(40)	(209)	(1,891)	287	373	307
Net income (loss)	$ 1,628	$ 4,009	$ (571)	$ (1,213)	$ (7,452)	$ 709	$ 950	$ 668
Basic earnings (loss) per share	$ 0.10	$ 0.24	$ (0.03)	$ (0.07)	$ (0.43)	$ 0.04	$ 0.05	$ 0.04
Diluted earnings (loss) per share	$ 0.10	$ 0.24	$ (0.03)	$ (0.07)	$ (0.43)	$ 0.04	$ 0.05	$ 0.04
Basic weighted average common shares	16,558,576	16,612,205	16,723,449	16,800,538	17,145,970	17,185,993	17,565,934	17,835,295
Diluted weighted average common shares	16,558,576	16,612,205	16,723,449	16,800,538	17,145,970	17,297,054	17,655,664	17,864,327

(Dollars in thousands, unless otherwise stated)

Note 19. Segment Reporting

The Company has two reportable segments: Ponce Bank and Mortgage World. Income from Ponce Bank consists primarily of interest earned on loans and investment securities and service charges on deposit accounts. Income from Mortgage World consists primarily of taking of applications from the general public for residential mortgage loans, underwriting them to investors' standards, closing and funding them and holding them until they are sold to investors. Included in the results of operations of the Company are the results of operations of Mortgage World from July 10, 2020 through December 31, 2020.

The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. Segment profit and loss is measured by net income on a legal entity basis. Intercompany transactions are eliminated in consolidation.

	For the Year Ended December 31, 2020				
	Ponce Bank	Mortgage World	PDL Community Bancorp	Eliminations	Consolidated
Interest and dividend income	$ 53,064	$ 275	$ 239	$ (239)	$ 53,339
Interest expense	11,357	251	—	(239)	11,369
Net interest income	41,707	24	239	—	41,970
Provision for loan losses	2,443	—	—	—	2,443
Net interest income after provision for loan losses	39,264	24	239	—	39,527
Non-interest income:					
Service charges and fees	892	—	—	—	892
Brokerage commissions	439	535	—	—	974
Late and prepayment charges	358	—	—	—	358
Gain on sale of mortgage loans	—	4,120	—	—	4,120
Loan origination	—	925	—	—	925
Gain on sale of real property	4,177	—	—	—	4,177
Other	1,688	627	—	(514)	1,801
Total non-interest income	7,554	6,207	—	(514)	13,247
Non-interest expense:					
Compensation and benefits	18,318	2,332	1,403	—	22,053
Occupancy and equipment	9,187	322	55	—	9,564
Data processing expenses	2,120	17	—	—	2,137
Direct loan expenses	655	792	—	—	1,447
Insurance and surety bond premiums	530	23	—	—	553
Office supplies, telephone and postage	1,343	56	—	—	1,399
Professional fees	4,379	45	1,625	—	6,049
Marketing and promotional expenses	477	11	—	—	488
Directors fees	276	—	—	—	276
Regulatory dues	210	—	—	—	210
Other operating expenses	3,015	279	581	(512)	3,363
Total non-interest expense	40,510	3,877	3,664	(512)	47,539
Income (loss) before income taxes	6,308	2,354	(3,425)	(2)	5,235
Provision (benefit) for income taxes	1,520	521	(659)	—	1,382
Equity in undistributed earnings of Ponce Bank and Mortgage World	—	—	6,619	(6,619)	—
Net income (loss)	$ 4,788	$ 1,833	$ 3,853	$ (6,621)	$ 3,853
Total assets	$ 1,315,287	$ 38,397	$ 159,811	$ (158,264)	$ 1,355,231

Note 20. Subsequent Events

On January 22, 2021, the Bank completed the purchase of property located at 135-12/14 Northern Boulevard, Flushing, New York through a qualified intermediary in an IRS Code 1031 like-kind exchange related to the previously disclosed sale of real property on July 27, 2020 that was owned by the Bank. The purchase price of the property was $3,600.

On February 11, 2021, PFS Service Corp. ("PFS"), a service company subsidiary of the Bank, completed the sale of real property that was owned by PFS, located at 3821 Bergenline Avenue, Union City, New Jersey (the "Real Property"). The purchase price of the Real Property was $2,417. Concurrent with the sale of the Real Property, the Bank and the purchaser entered into an initial fifteen-year lease agreement whereby the Bank will lease back the Real Property at an initial base annual rent of approximately $145 subject to annual rent increases of 1.5%. Under the lease agreement, the Bank has four (4) consecutive options to extend the term of the lease by five (5) years for each such option.

On March 3, 2021, the Company executed a Guaranty Agreement with a warehouse lender to guarantee advances made or to be made under the Mortgage Warehousing Loan and Security Agreement between the warehouse lender and Mortgage World with a line of credit of $15,000.

On March 16, 2021, the Company executed a Guaranty Agreement with a warehouse lender to guarantee advances made or to be made under the Mortgage Warehouse Loan and Security Agreement between the warehouse lender and Mortgage World with a line of credit of $5,000.

On March 22, 2021, the Bank executed an agreement to sell the real property it owns located at 5560 Broadway, Bronx, New York for a purchase price of $5,735. Upon closing of the sale, the Bank and the purchaser anticipate entering into a fifteen-year lease agreement whereby the Bank will lease back the property at an annual rent of approximately $281 subject to annual rent increases of 1.75%.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure

a) Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2020. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) Management's Annual Report

The management of the Company is responsible for establishing and maintaining adequate internal control (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's Chief Executive Officer and Chief Financial Officer regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with GAAP.

In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on management's assessment, the Company believes that, as of December 31, 2020, the Company's internal control over financial reporting is effective based on the criteria established by Internal Control—Integrated Framework (2013) issued by COSO.

c) Attestation Report of the Registered Public Accounting Firm

Not applicable because the Company is an emerging growth company.

d) Changes in Internal Control Over Financial Reporting

There were no significant changes made in the Company's internal control over financial reporting during the fourth quarter of the year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The "Proposal I - Election of Directors – Directors, and – Executive Officer who is not a Director" sections of the Company's definitive proxy statement for the Company's 2021 Annual Meeting of Stockholders (the "2021 Proxy Statement") are incorporated herein by reference.

Item 11. Executive Compensation.

The "Proposal I – "Election of Directors – Executive Compensation" section of the 2021 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The "Voting Securities and Principal Holders" and "Proposal I – Election of Directors – Benefit Plans and Agreements – 2018 Long-Term Incentive Plan" sections of the Company's 2021 Proxy statement are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The "Proposal I – Election of Directors - Transactions with Certain Related Persons, - Board Independence and -Meetings and Committees of the Board of Directors" sections of the Company's 2021 Proxy statement are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The "Proposal II - Ratification of Appointment of Independent Registered Public Accounting Firm" section of the 2021 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

The following are filed as a part of this Form 10-K under Item 8:

(A) Report of Independent Registered Public Accounting Firm

(B) Consolidated Statements of Financial Condition as of December 31, 2020 and 2019

(C) Consolidated Statements of Income (Loss) for the Years ended December 31, 2020, 2019, and 2018

(D) Consolidated Statements of Comprehensive Income for the Years ended December 31, 2020, 2019, and 2018

(E) Consolidated Statements Stockholders' Equity for the Years ended December 31, 2020, 2019, and 2018

(F) Consolidated Statements of Cash Flows for the Years ended December 31, 2020, 2019, and 2018

(G) Notes to the Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

Exhibit Index

Exhibit Number	Description
3.1	Charter of PDL Community Bancorp (attached as Exhibit 3.1 to the Registrant's amendment No. 1 to the Form S-1 (File No. 333-217275) filed with the Commission on May 22, 2017).
3.2	Bylaws of PDL Community Bancorp (attached as Exhibit 3.2 to the Registrant's amendment No. 2 to the Form S-1 (File No. 333-217275) filed with the Commission on July 27, 2017).
4.1	Form of Common Stock Certificate of PDL Community Bancorp (attached as Exhibit 4.1 to the Registrant's amendment No. 2 to the Form S-1 (File No, 333-217275) filed with the Commission on July 27, 2017).
4.2	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (attached as Exhibit 4.2 to the Registrant's Form 10-K (File No. 001-38224) filed with the Commission on March 17, 2020).
10.1	Ponce Bank Employee Stock Ownership Plan (attached as Exhibit 10.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.2	Ponce Bank ESOP Equalization Plan (attached as Exhibit 10.2 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.3	Ponce De Leon Federal Deferred Compensation Plan (attached as Exhibit 10.3 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.4	Employment Agreement, dated as of March 23, 2017, by and between Ponce de Leon Federal Bank and Carlos P. Naudon (attached as Exhibit 10.4 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.5	Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Carlos P. Naudon (attached as Exhibit 10.5 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.6	Employment Agreement, dated March 23, 2017, by and between Ponce De Leon Federal Bank and Steven Tsavaris (attached as Exhibit 10.6 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.7	Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Steven Tsavaris (attached as Exhibit 10.7 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.8	Employment Agreement, dated March 31, 2017, by and between Ponce De Leon Federal Bank and Frank Perez (attached as Exhibit 10.8 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.9	Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Frank Perez (attached as Exhibit 10.9 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
10.10	Specimen Form of Restricted Stock Unit Award Agreement for Employees (attached as Exhibit 10.1 to the Registrant's Form 8-K (File No. 001-38224) filed with the Commission on December 12, 2018).

10.11	Specimen Form of Restricted Stock Unit Award Agreement for Non-Employee Directors (attached as Exhibit 10.2 to the Registrant's Form 8-K (File No. 001-38224) filed with the Commission on December 12, 2018).
10.12	Specimen Form of Stock Option Agreement for Employees (attached as Exhibit 10.3 to the Registrant's Form 8-K (File No. 001-38224) filed with the Commission on December 12, 2018).
10.13	Specimen Form of Stock Option Agreement for Non-Employee Directors (attached as Exhibit 10.4 to the Registrant's Form 8-K (File No. 001-38224) filed with the Commission on December 12, 2018).
21.1	Subsidiaries of the Registrant (attached as Exhibit 21.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*** Filed herewith.**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

Company Name

Date: March 26, 2021

By: /s/ Carlos P. Naudon
Carlos P. Naudon
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Carlos P. Naudon **Carlos P. Naudon**	President, Chief Executive Officer and Director	March 26, 2021
/s/ Frank Perez **Frank Perez**	Executive Vice President and Chief Financial Officer	March 26, 2021
/s/ Steven A. Tsavaris **Steven A. Tsavaris**	Executive Chairman and Director	March 26, 2021
/s/ James Demetriou **James Demetriou**	Director	March 26, 2021
/s/ William Feldman **William Feldman**	Director	March 26, 2021
/s/ Julio Gurman **Julio Gurman**	Director	March 26, 2021
/s/ Maria Alvarez **Maria Alvarez**	Director	March 26, 2021
/s/ Nick Lugo **Nick Lugo**	Director	March 26, 2021

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Carlos P. Naudon, certify that:

1. I have reviewed this annual report on Form 10-K of PDL Community Bancorp;

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

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

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

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

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

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

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

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

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

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

Date: March 26, 2021

By: /s/ Carlos P. Naudon
Carlos P. Naudon
President, Chief Executive Officer & Director

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank Perez, certify that:

1. I have reviewed this annual report on Form 10-K of PDL Community Bancorp;

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

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

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

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

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

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

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

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

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

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

Date: March 26, 2021

By: /s/ Frank Perez
Frank Perez
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of PDL Community Bancorp (the “Company”) on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 26, 2021

By: /s/ Carlos P. Naudon
Carlos P. Naudon
President, Chief Executive Officer and Director

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of PDL Community Bancorp (the “Company”) on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 26, 2021

By: /s/ Frank Perez
Frank Perez
Executive Vice President and Chief Financial Officer