

ESSA Bancorp, Inc.  
Form 10-K  
December 20, 2007  
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## SECURITIES AND EXCHANGE COMMISSION

450 Fifth Street, N.W.

Washington, D.C. 20549

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### FORM 10-K

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**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Fiscal Year Ended September 30, 2007

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 No. 001-33384

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## ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**20-8023072**  
(I.R.S. Employer  
Identification Number)

**200 Palmer Street, Stroudsburg, Pennsylvania 370**  
(Address of Principal Executive Offices)

**(570) 421-0531**

**18360**  
Zip Code

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(Registrant's telephone number)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.01 par value	The NASDAQ Stock Market, LLC
<b>Securities Registered Pursuant to Section 12(g) of the Act: None</b>	

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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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES  NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of December 17, 2007, there were issued and outstanding 16,980,900 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on March 31, 2007, is not available, as the Registrant's common stock did not begin trading until April 4, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Proxy Statement for the 2007 Annual Meeting of Stockholders of the Registrant (Part III).

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**PART I**

**Item 1. Business**  
**Forward Looking Statements**

This Annual Report contains certain forward-looking statements which may be identified by the use of words such as believe, expect, anticipate, should, planned, estimated and potential. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

**ESSA Bancorp, Inc.**

ESSA Bancorp, Inc. is the Pennsylvania-chartered stock holding company of ESSA Bank & Trust. ESSA Bancorp, Inc. owns 100% of the outstanding shares of common stock of ESSA Bank & Trust. Since being formed in 2006, ESSA Bancorp, Inc. has engaged primarily in the business of holding the common stock of ESSA Bank & Trust. Our executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. ESSA Bancorp, Inc. is subject to comprehensive regulation and examination by the Office of Thrift Supervision. At September 30, 2007, ESSA Bancorp, Inc. had consolidated assets of \$910.4 million, consolidated deposits of \$384.7 million and consolidated stockholders equity of \$204.7 million. Its consolidated net loss for the fiscal year ended September 30, 2007 was \$5.1 million.

On April 3, 2007, ESSA Bancorp, Inc. consummated its stock offering, resulting in gross proceeds of \$158.7 million, through the sale of 15,870,000 shares at a price of \$10.00 per share. ESSA Bancorp, Inc. also contributed 1,110,900 shares of its common stock to the ESSA Bank & Trust Foundation along with \$1.6 million in cash. Expenses related to the offering were approximately \$2.9 million, which resulted in net proceeds of approximately \$155.8 million prior to the contribution to the ESSA Bank & Trust Foundation.

ESSA Bancorp, Inc. loaned approximately \$13.6 million to the ESSA Bank & Trust's Employee Stock Ownership Plan. ESSA Bancorp, Inc. retained approximately \$64.3 million of the net proceeds of the offering prior to the contribution to the ESSA Bank & Trust Foundation, and the remainder of the net proceeds were contributed to ESSA Bank & Trust.

**ESSA Bank & Trust**

**General**

ESSA Bank & Trust was organized in 1916. ESSA Bank & Trust is a full-service, community-oriented savings association. We provide financial services to individuals, families and businesses through our thirteen (13) full-service banking offices, located in Monroe and Northampton Counties, Pennsylvania. ESSA Bank & Trust is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and the Office of Thrift Supervision.

ESSA Bank & Trust's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential first mortgage loans (including construction mortgage loans), commercial real estate, home equity loans and lines of credit, commercial and consumer loans. In addition, we offer a variety of deposit accounts, including checking, savings and certificates of deposits. We offer asset management and trust services. We also offer investment services through our relationship with PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor.

ESSA Bank & Trust's executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. Our website address is [www.essabank.com](http://www.essabank.com).

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### **Market Area**

At September 30, 2007, our thirteen full-service banking offices consisted of twelve offices in Monroe County and one office in Northampton County, Pennsylvania. Our primary market for deposits is currently concentrated around the areas where our full-service banking offices are located. Our primary lending area consists of the counties where our branch offices are located, and to a lesser extent, the contiguous counties in the Commonwealth of Pennsylvania.

Monroe County is located in eastern Pennsylvania, situated 90 miles north of Philadelphia, 75 miles west of New York and 116 miles northeast of Harrisburg. Monroe County is comprised of 611 square miles of mostly rural terrain. Monroe County is the second-fastest growing county in Pennsylvania. Major industries include tourism, construction and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. As of June 30, 2007, we had a deposit market share of approximately 18.95% in Monroe County, which represented the second largest deposit market share in Monroe County and less than 1% in Northampton County.

### **Lending Activities**

Historically, our principal lending activity has been the origination of first mortgage loans for the purchase or refinancing of one- to four-family residential real property. During the past five years, we have increased our originations of commercial real estate loans in an effort to increase interest income, diversify our loan portfolio, and better serve the community. These loans have increased from 4.1% of our total loan portfolio at September 30, 2003 to 9.3% of our total loan portfolio at September 30, 2007. One- to four-family residential real estate mortgage loans represented \$500.1 million, or 80.0%, of our loan portfolio at September 30, 2007. Commercial real estate loans totaled \$58.4 million, or 9.3% of our total loan portfolio at September 30, 2007. Home equity loans and lines of credit totaled \$47.5 million, or 7.6% of the total loan portfolio at September 30, 2007 and construction first mortgage loans totaled \$7.8 million, or 1.3% of the total loan portfolio at September 30, 2007. We originate other consumer loans on a limited basis.

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**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	2007		2006		At September 30, 2005		2004		2003	
	Amount (Dollars in thousands)	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Residential first mortgage loans:										
One- to four-family	\$ 500,104	80.0%	\$ 452,406	80.4%	\$ 421,169	81.7%	\$ 399,233	82.4%	\$ 378,744	85.2%
Construction	7,800	1.3	5,943	1.1	7,597	1.5	8,309	1.7	6,093	1.4
Commercial	7,699	1.2	6,159	1.1	5,310	1.0	2,468	0.5	2,255	0.5
Commercial real estate	58,447	9.3	47,479	8.4	36,984	7.2	29,439	6.1	18,615	4.1
Home equity loans and lines of credit	47,544	7.6	46,796	8.3	40,342	7.8	34,256	7.1	26,653	6.0
Other	3,875	0.6	4,247	0.7	4,204	0.8	10,720	2.2	12,358	2.8
Total loans receivable	\$ 625,469	100.0%	\$ 563,030	100.0%	\$ 515,606	100.0%	\$ 484,425	100.0%	\$ 444,718	100.0%
Deferred loan costs (fees)	(1,418)		(2,498)		(3,062)		(3,442)		(3,670)	
Allowance for loan losses	(4,206)		(3,855)		(3,563)		(3,027)		(2,509)	
Total loans receivable, net	\$ 619,845		\$ 556,677		\$ 508,981		\$ 477,956		\$ 438,539	

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**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2007. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to Four-Family		Construction		Commercial		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years								
<u>Ending September 30,</u>								
2008	\$ 689	5.42%	\$		\$ 2,398	7.39%	\$ 5,351	8.83%
2009	167	5.98%			21	6.34%	264	7.70%
2010	3,140	4.88%			417	6.94%	3,842	6.74%
2011 to 2012	12,631	4.99%			1,748	7.33%	2,790	7.00%
2013 to 2017	122,431	5.28%			600	7.55%	35,453	6.71%
2018 to 2022	99,736	5.72%	299	6.28%			5,578	6.37%
2022 and beyond	261,310	6.20%	7,501	6.36%	2,515	6.10%	5,169	6.81%
Total	\$ 500,104	5.84%	\$ 7,800	6.35%	\$ 7,699	6.94%	\$ 58,447	6.90%

	Home Equity Loans and Lines of Credit		Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)					
Due During the Years						
<u>Ending September 30,</u>						
2008	\$ 674	6.77%	\$ 1,657	7.82%	\$ 10,769	8.01%
2009	1,016	6.28%	234	9.43%	1,702	6.90%
2010	2,762	6.06%	353	8.33%	10,514	6.07%
2011 to 2012	4,915	6.73%	1,081	8.22%	23,165	5.93%
2013 to 2017	9,413	6.56%	169	10.22%	168,066	5.67%
2018 to 2022	12,044	6.65%			117,657	5.85%
2022 and beyond	16,720	8.23%	381	7.85%	293,596	6.33%
Total	\$ 47,544	7.15%	\$ 3,875	8.18%	\$ 625,469	6.07%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2007 that are contractually due after September 30, 2008.

	Due After September 30, 2008		
	Fixed	Adjustable	Total
	(In thousands)		
Residential first mortgage loans:			
One- to four-family	\$ 433,687	65,728	499,415
Construction	7,800		7,800
Commercial	2,736	2,565	5,301
Commercial real estate	29,735	23,361	53,096

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Home equity loans and lines of credit	30,100	16,770	46,870
Other	2,218		2,218
 Total	 \$ 506,276	 \$ 108,424	 \$ 614,700

***Loan Originations and Repayments.*** Historically, we have originated residential mortgage loans pursuant to underwriting standards that generally conform to Fannie Mae and Freddie Mac guidelines. Loan origination activities are primarily concentrated in Monroe and Northampton Counties, Pennsylvania. New loans are generated primarily from the efforts of employees and advertising, a network of mortgage brokers, other parties with whom we do business, customer referrals, and from walk-in customers. Loan applications are underwritten and processed at our corporate center.

***One- to Four-Family Residential Loans.*** Historically, our primary lending activity has consisted of the origination of one- to four-family residential mortgage loans secured primarily by properties located in Monroe and



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Northampton Counties, Pennsylvania. At September 30, 2007, approximately \$500.1 million, or 80.0% of our loan portfolio, consisted of one- to four-family residential loans. Our origination of one- to four-family loans increased in fiscal year 2007 compared to fiscal years 2006 and 2005, although such loans are declining as a percentage of our total loan portfolio. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, although loans may be made with higher loan-to-value ratios at a higher interest rate to compensate for the risk. Private mortgage insurance is generally required on loans with a loan-to-value ratio in excess of 80%. Fixed-rate loans are originated for terms of 10, 15, 20 and 30 years. At September 30, 2007, our largest loan secured by one- to four-family real estate had a principal balance of approximately \$751,000 and was secured by a single-family residence. This loan was performing in accordance with its repayment terms.

We also offer adjustable-rate mortgage loans which have fixed terms of one, three, five or ten-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated \$23.0 million of adjustable rate one- to four-family residential loans during the year ended September 30, 2007 and \$17.4 million during the year ended September 30, 2006. Our adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 600 basis points. Our adjustable rate mortgage loans amortize over terms of up to 3