Investors Bancorp Inc
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2013
Commission file number: 0-51557

Investors Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3493930 (I.R.S. Employer Identification Number)
101 JFK Parkway, Short Hills, New Jersey (Address of Principal Executive Offices)	07078 Zip Code

(973) 924-5100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all the reports 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 report), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

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

As of November 4, 2013, the registrant had 118,020,280 shares of common stock, par value $0.01 per share, issued and 112,353,288 shares outstanding, of which 65,396,235 shares, or 58.2%, were held by Investors Bancorp, MHC, the registrant's mutual holding company.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2013 (unaudited) and December 31, 2012

	September 30, 2013 (In thousands)	December 31, 2012
ASSETS		
Cash and cash equivalents	$168,329	155,153
Securities available-for-sale, at estimated fair value	816,496	1,385,328
Securities held-to-maturity, net (estimated fair value of $687,130 and $198,893 at September 30, 2013 and December 31, 2012, respectively)	670,958	179,922
Loans receivable, net	11,374,012	10,306,786
Loans held-for-sale	9,130	28,233
Stock in the Federal Home Loan Bank	192,883	150,501
Accrued interest receivable	45,431	45,144
Other real estate owned	5,119	8,093
Office properties and equipment, net	101,929	91,408
Net deferred tax asset	173,679	150,006
Bank owned life insurance	116,122	113,941
Intangible assets	100,342	99,222
Other assets	32,957	8,837
Total assets	$13,807,387	12,722,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$8,642,335	8,768,857
Borrowed funds	3,796,112	2,705,652
Advance payments by borrowers for taxes and insurance	75,020	52,707
Other liabilities	167,272	128,541
Total liabilities	12,680,739	11,655,757
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 112,155,719 and 111,915,882 outstanding at September 30, 2013 and December 31, 2012, respectively	532	532
Additional paid-in capital	538,164	533,858
Retained earnings	712,671	644,923
Treasury stock, at cost; 5,864,561 and 6,104,398 shares at September 30, 2013 and December 31, 2012, respectively	(70,676)	(73,692)
Unallocated common stock held by the employee stock ownership plan	(30,133)	(31,197)
Accumulated other comprehensive loss	(23,910)	(7,607)
Total stockholders' equity	1,126,648	1,066,817
Total liabilities and stockholders' equity	$13,807,387	12,722,574

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Loans receivable and loans held-for-sale	$127,186	111,909	$369,682	334,438
Securities				
Equity	18	4	41	10
Government-sponsored enterprise obligations	1	1	3	12
Mortgage-backed securities	7,123	7,111	20,336	23,530
Municipal bonds and other debt	1,406	1,426	4,401	3,940
Interest-bearing deposits	20	9	41	30
Federal Home Loan Bank stock	1,643	1,415	4,521	4,069
Total interest and dividend income	137,397	121,875	399,025	366,029
Interest expense				
Deposits	11,730	14,882	36,668	49,621
Secured borrowings	15,243	15,056	45,183	45,180
Total interest expense	26,973	29,938	81,851	94,801
Net interest income	110,424	91,937	317,174	271,228
Provision for loan losses	13,750	16,000	41,250	48,000
Net interest income after provision for loan losses	96,674	75,937	275,924	223,228
Non-interest income				
Fees and service charges	5,003	3,586	14,330	12,769
Income on bank owned life insurance	694	678	2,182	1,893
Gain on loan transactions, net	2,226	7,191	7,302	15,874
Gain on securities transactions	15	255	706	286
Gain (loss) on sale of other real estate owned, net	226	(51)	688	(122)
Other income	1,327	1,046	3,910	2,940
Total non-interest income	9,491	12,705	29,118	33,640
Non-interest expense				
Compensation and fringe benefits	31,592	25,221	90,472	76,242
Advertising and promotional expense	2,023	1,852	6,234	5,294
Office occupancy and equipment expense	10,386	7,892	29,026	25,241
Federal deposit insurance premiums	3,800	3,470	11,050	7,370
Stationery, printing, supplies and telephone	866	607	2,444	2,062
Professional fees	2,789	1,707	7,885	7,591
Data processing service fees	4,694	3,295	12,786	11,554
Other operating expenses	4,681	4,173	13,955	12,194
Total non-interest expenses	60,831	48,217	173,852	147,548
Income before income tax expense	45,334	40,425	131,190	109,320
Income tax expense	16,053	15,936	46,666	41,924
Net income	$29,281	24,489	$84,524	67,396
Basic earnings per share	$0.27	0.23	$0.78	0.63

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Diluted earnings per share	$0.27	0.23	$0.78	0.62
Weighted average shares outstanding				
Basic	107,933,076	107,409,451	107,765,190	107,347,608
Diluted	109,357,614	108,276,407	109,022,307	107,937,805

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$29,281	24,489	84,524	67,396
Other comprehensive (loss), income net of tax:				
Change in funded status of retirement obligations	141	72	424	215
Unrealized gain (loss) on securities available-for-sale	152	2,949	(10,614)	7,198
Net loss on securities reclassified from available-for-sale to held-to-maturity	—	—	(7,242)	—
Accretion of loss on securities reclassified to held-to-maturity	502	—	502	—
Reclassification adjustment for security (gains), losses included in net income	—	82	(405)	104
Other-than-temporary impairment accretion on debt securities	641	218	1,032	655
Total other comprehensive (loss) income	1,436	3,321	(16,303)	8,172
Total comprehensive income	$30,717	27,810	68,221	75,568

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. & SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Nine months ended September 30, 2013 and 2012
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive income (loss)	Total stockholders' equity
	(In thousands)						
Balance at December 31, 2011	$532	536,408	561,596	(87,375)	(32,615)	(11,106)	967,440
Net income	—	—	67,396	—	—	—	67,396
Other comprehensive income, net of tax	—	—	—	—	—	8,172	8,172
Purchase of treasury stock (54,673 shares)	—	—	—	(806)	—	—	(806)
Treasury stock allocated to restricted stock plan	—	(6,904)	243	6,661	—	—	—
Common stock issued from treasury to finance acquisition (551,862 shares)	—	—	(142)	7,703	—	—	7,561
Compensation cost for stock options and restricted stock	—	2,722	—	—	—	—	2,722
Net tax benefit from stock-based compensation	—	83	—	—	—	—	83
Cash dividend paid ($0.05 per common share)	—	—	(5,595)	—	—	—	(5,595)
ESOP shares allocated or committed to be released	—	577	—	—	1,064	—	1,641
Balance at September 30, 2012	$532	532,886	623,498	(73,817)	(31,551)	(2,934)	1,048,614
Balance at December 31, 2012	$532	533,858	644,923	(73,692)	(31,197)	(7,607)	1,066,817
Net income	—	—	84,524	—	—	—	84,524
Other comprehensive loss, net of tax	—	—	—	—	—	(16,303)	(16,303)
Purchase of treasury stock (76,663 shares)	—	—	—	(1,376)	—	—	(1,376)
Treasury stock allocated to restricted stock plan	—	(55)	13	42	—	—	—
Compensation cost for stock options and restricted stock	—	2,648	—	—	—	—	2,648

Net tax benefit from stock-based compensation	—	234	—	—	—	—	234
Exercise of Stock Option	—	425	—	4,350	—	—	4,775
Cash dividend paid ($0.15 per common share)	—	—	(16,789)	—	—	—	(16,789)
ESOP shares allocated or committed to be released	—	1,054	—	—	1,064	—	2,118
Balance at September 30, 2013	$532	538,164	712,671	(70,676)	(30,133)	(23,910)	1,126,648

See accompanying notes to consolidated financial statements

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$84,524	67,396
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	4,766	4,363
Amortization of premiums and accretion of discounts on securities, net	8,049	9,358
Amortization of premiums and accretion of fees and costs on loans, net	5,159	7,107
Amortization of intangible assets	1,620	1,058
Provision for loan losses	41,250	48,000
Depreciation and amortization of office properties and equipment	6,038	5,015
Gain on securities, net	(706)	(286)
Mortgage loans originated for sale	(334,676)	(629,985)
Proceeds from mortgage loan sales	359,216	632,400
Gain on sales of mortgage loans, net	(5,437)	(13,702)
(Gain) loss on sale of other real estate owned	(688)	122
Income on bank owned life insurance	(2,181)	(1,893)
(Increase) decrease in accrued interest receivable	(287)	820
Deferred tax benefit	(12,308)	(4,531)
(Increase) decrease in other assets	(26,860)	9,886
Increase in other liabilities	39,448	37,202
Total adjustments	82,403	104,934
Net cash provided by operating activities	166,927	172,330
Cash flows from investing activities:		
Purchases of loans receivable	(793,198)	(496,290)
Net originations of loans receivable	(443,440)	25,232
Proceeds from sale of loans held for investment	121,046	77,302
Gain on disposition of loans held for investment	(1,865)	(2,172)
Net proceeds from sale of foreclosed real estate	7,484	3,207
Purchases of mortgage-backed securities held to maturity	(29,723)	—
Purchases of debt securities held-to-maturity	(9,391)	(5,138)
Purchases of mortgage-backed securities available-for-sale	(295,897)	(524,055)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	57,499	81,004
Proceeds from paydowns on equity securities available-for-sale	108	—
Proceeds from paydowns/maturities on debt securities held-to-maturity	17,086	12,769
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	246,415	242,650

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Proceeds from sale of mortgage-backed securities held-to-maturity	—	14,871
Proceeds from sales of mortgage-backed securities available-for-sale	55,971	172,206
Proceeds from sales of US Government and Agency Obligations available-for-sale	—	3,219
Redemption of equity securities available-for-sale	—	85
Proceeds from redemptions of Federal Home Loan Bank stock	89,102	56,222
Purchases of Federal Home Loan Bank stock	(131,484)	(69,637)
Purchases of office properties and equipment	(16,559)	(18,320)
Death benefit proceeds from bank owned life insurance	—	3,204
Cash received, net of cash consideration paid for acquisitions	—	27,741
Net cash used in investing activities	(1,126,846)	(395,900)
Cash flows from financing activities:		
Net increase in deposits	(126,522)	144,439
Repayments of funds borrowed under other repurchase agreements	150,000	(90,000)
Net increase in other borrowings	940,460	187,314
Net increase in advance payments by borrowers for taxes and insurance	22,313	12,804
Dividends paid	(16,789)	—
Exercise of stock options	4,775	—
Purchase of treasury stock	(1,376)	(806)
Net tax benefit from stock-based compensation	234	83
Net cash provided by financing activities	973,095	253,834
Net increase in cash and cash equivalents	13,176	30,264
Cash and cash equivalents at beginning of period	155,153	90,139
Cash and cash equivalents at end of period	$168,329	120,403
Supplemental cash flow information:		
Non-cash investing activities:		
Real estate acquired through foreclosure	$3,822	8,625
Cash paid during the year for:		
Interest	$81,028	95,255
Income taxes	$59,923	45,885
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale	$—	170,368
Loans	—	177,512
Goodwill and other intangible assets, net	—	16,732
Other assets	—	15,806
Total non-cash assets acquired	$—	380,418
Liabilities assumed:		
Deposits	$—	385,859
Borrowings	—	8,200
Other liabilities	—	6,441
Total liabilities assumed	$—	400,500

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Net non-cash assets acquired	$—	(20,082)
Common stock issued for Brooklyn Federal Savings Bank acquisition	$—	(7,561)

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1.Basis of Presentation

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiaries, including Investors Bank (the “Bank”) and the Bank’s wholly-owned subsidiaries (collectively, the “Company”).

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and nine months ended September 30, 2013 are not necessarily indicative of the results of operations that may be expected for subsequent periods or the full year results.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company’s audited consolidated financial statements and notes to the consolidated financial statements included in the Company’s December 31, 2012 Annual Report on Form 10-K. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2.Business Combinations

On April 5, 2013, the Company entered into a definitive merger agreement with Gateway Community Financial Corporation, the mid-tier holding company for GCF Bank. Gateway Community Financial Corporation has no public shareholders, and therefore no merger consideration will be paid to third parties. The Company will issue shares of its common stock to Investors MHC as consideration for the transaction. The number of shares to be issued will be based on the pro forma market valuation of Gateway Community Financial Corporation as determined by an independent appraisal. As of June 30, 2013, Gateway Community Financial Corporation operated 4 branches in Gloucester County, New Jersey, and had assets of $303.0 million, deposits of $271.6 million and a net worth of $24.4 million. The merger agreement has been approved by the boards of directors of each company and is subject to regulatory approvals and other customary closing conditions. As the merger has not been completed, the transaction is not reflected in the balance sheet or results of operation for the periods presented in this document.

On December 19, 2012, the Company entered into a definitive merger agreement with Roma Financial Corporation, the federally-chartered holding company for Roma Bank and RomAsia Bank. Under the terms of the merger agreement, 100% of the shares of Roma Financial will be converted into Investors Bancorp Inc. common stock. As of June 30, 2013, Roma Financial Corporation operated 26 branches in Burlington, Ocean, Mercer, Camden and Middlesex counties, New Jersey, and had assets of $1.73 billion, deposits of $1.41 billion and stockholders' equity of $217.2 million. The merger agreement has been approved by the boards of directors of each company as well as Investors Bancorp and Roma Financial shareholders. The merger is subject to the requisite regulatory approvals and other customary closing conditions. As the merger has not been completed, the transaction is not reflected in the balance sheet or results of operation for the periods presented in this document.

On October 15, 2012, the Company completed the acquisition of Marathon Banking Corporation and Marathon National Bank of New York, ("Marathon Bank") a federally chartered bank with 13 full-service branches in the New York metropolitan area. The acquisition was accounted for under the acquisition method of accounting as prescribed by “ASC” 805 “Business Combinations”, as amended. After the purchase accounting adjustments, the Company assumed $777.5 million in customer deposits and acquired $558.5 million in loans. This transaction resulted in $38.6 million of goodwill and generated $5.0 million in core deposit intangibles. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired has been recorded as goodwill.

The purchase price of $135.0 million was paid using available cash.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for Marathon, net of cash consideration paid:

	At October 15, 2012 (In millions)
Cash and cash equivalents, net	$113.0
Securities available-for-sale	42.2
Securities held to maturity	4.7
Loans receivable	558.5
Accrued interest receivable	1.5
Other real estate owned	1.0
Office properties and equipment, net	7.5
Goodwill	38.6
Intangible assets	5.0
Other assets	14.7
Total assets acquired	786.7
Deposits	(777.5)
Borrowed funds	(5.2)
Other liabilities	(4.0)
Total liabilities assumed	$(786.7)

For the nine months ended September 30, 2013, an adjustment of $207,000 was recorded to goodwill due to adjustments to purchase accounting, see footnote 7, "Goodwill and Other Intangible Assets". The calculation of goodwill is subject to change for up to one year after closing date of the transactions as additional information relative to closing dates estimates and uncertainties becomes available.

On January 6, 2012, the Company completed the acquisition of Brooklyn Federal Bancorp, Inc. ("BFSB"), the holding company of Brooklyn Federal Savings Bank, a federally chartered savings bank with five full-service branches in Brooklyn and Long Island. After the purchase accounting adjustments, the Company assumed $385.9 million in customer deposits and acquired $177.5 million in loans. This transaction resulted in $16.7 million of goodwill and generated $218,000 in core deposit intangibles. Under the acquisition method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired has been recorded as goodwill. The purchase price of $10.3 million was paid through a combination of the Company's common stock (551,862 shares), issued to Investors Bancorp, MHC, and cash of $2.9 million. Brooklyn Federal Savings Bank was merged into the Bank as of the acquisition date. In a separate transaction, the Company sold most of Brooklyn Federal Savings Bank's commercial real estate loan portfolio to a real estate investment fund on January 10, 2012.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for BFSB, net of cash consideration paid:

	At January 6, 2012 (In millions)
Cash and cash equivalents, net	$27.7
Securities available-for-sale	170.4
Loans receivable	177.5
Accrued interest receivable	1.1
Office properties and equipment, net	5.2
Goodwill	16.7
Intangible assets	0.2
Other assets	9.3
Total assets acquired	408.1
Deposits	(385.9)
Borrowed funds	(8.2)
Other liabilities	(6.4)
Total liabilities assumed	(400.5)
Net assets acquired	$7.6

The purchase accounting for the Brooklyn is complete and reflected in the table above and in our consolidated financial statements.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the Marathon and BFSB acquisitions:

Securities. The estimated fair values of the investment securities classified as available for sale were calculated utilizing Level 1 inputs. The prices for these instruments are based upon sales of the securities shortly after the acquisition date. Investment securities classified as Held to Maturity were valued using a combination of Level 2 and Level 3 inputs. The Company reviewed the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

Loans. The acquired loan portfolio was valued based on guidance from ASC 820-10 which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 procedures utilized to value the portfolio included the use of present value techniques employing cash flow estimates and the incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company utilized three separate fair value analyses we believe a market participant might employ in estimating the entire fair value adjustment required under ASC 820-10. The three separate fair valuation methodologies used are: 1) interest rate loan fair value analysis, 2) general credit fair value adjustment and 3) specific credit fair value adjustment.

To prepare the interest rate loan fair value analysis loans were assembled into groupings by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by Company Management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment.

The General Credit Risk fair value adjustment was calculated using a two part general credit fair value analysis; 1) expected lifetime losses and 2) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the Company, Marathon Bank and peer banks. The adjustment related to qualitative factors was impacted by general economic conditions, and the risk related to lack of familiarity with the originator's underwriting process.

To calculate the Specific Credit fair value adjustment the Company reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan as defined by ASC 310-30. Loans meeting this criteria were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value will result in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans on a level yield basis as an adjustment to yield.

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Deposits / Core Deposit Intangibles. Core deposit intangibles (CDI) represent the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. The CDI value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost alternative funding sources.
Certificates of deposit (time deposits) are not considered to be core deposits as they are assumed to have a low expected average life upon acquisition. The fair value of certificates of deposits represents the present value of the certificates' expected contractual payments discounted by market rates for similar CD's.
Borrowed Funds. The present value approach was used to determine the fair value of the borrowed funds acquired during 2012. The fair value of the liability represents the present value of the expected payments using the three year FHLB advance rate.

3. Earnings Per Share
The following is a summary of our earnings per share calculations and reconciliation of basic to diluted earnings per share.

	Three months ended September 30,					
	2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net income	$29,281			$24,489		
Basic earnings per share:						
Income available to common stockholders	$29,281	107,933,076	$0.27	$24,489	107,409,451	$0.23
Effect of dilutive common stock equivalents	—	1,424,538		—	866,956	
Diluted earnings per share:						
Income available to common stockholders	$29,281	109,357,614	$0.27	$24,489	108,276,407	$0.23

For the three months ended September 30, 2013 and 2012 there were 194,000 and 15,000 equity awards, respectively, that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

	Nine months ended September 30,					
	2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net income	$84,524			$67,396		
Basic earnings per share:						
Income available to common stockholders	$84,524	107,765,190	$0.78	$67,396	107,347,608	$0.63
Effect of dilutive common stock equivalents	—	1,257,117		—	590,197	
Diluted earnings per share:						
Income available to common stockholders	$84,524	109,022,307	$0.78	$67,396	107,937,805	$0.62

For the nine months ended September 30, 2013 and 2012 there were 194,000 and 486,000 equity awards, respectively that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

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4. Securities

The carrying value, gross unrealized gains and losses and estimated fair value of securities available-for-sale and held-to-maturity for the dates indicated are as follows:

	At September 30, 2013			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$3,220	1,119	19	4,320
Debt securities:				
Government-sponsored enterprises	3,013	—	—	3,013
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	379,187	4,472	2,638	381,021
Federal National Mortgage Association	424,221	5,931	2,717	427,435
Government National Mortgage Association	703	4	—	707
Total mortgage-backed securities available-for-sale	804,111	10,407	5,355	809,163
Total available-for-sale securities	$810,344	11,526	5,374	816,496

	At September 30, 2013					
	Amortized cost	Net unrealized gains (losses) (1)	Carrying value	Gross unrecognized gains (2)	Gross unrecognized losses (2)	Estimated fair value
	(In thousands)					
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	$127	—	127	1	—	128
Municipal bonds	15,331	—	15,331	636	—	15,967
Corporate and other debt securities	58,597	(26,759)	31,838	20,625	2,505	49,958
Total debt securities held-to-maturity	74,055	(26,759)	47,296	21,262	2,505	66,053
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	265,570	(5,701)	259,869	2,058	4,278	257,649
Federal National Mortgage Association	369,071	(5,693)	363,378	3,074	3,439	363,013
Federal housing authorities	415	—	415	—	—	415
Total mortgage-backed securities held-to-maturity	635,056	(11,394)	623,662	5,132	7,717	621,077
Total held-to-maturity securities	$709,111	(38,153)	670,958	26,394	10,222	687,130

(1) Unrealized gains and losses of held-to-maturity securities represent (i) the other than temporary charge related to other non credit factors on corporate and other debt securities and is amortized through accumulated other comprehensive income over the remaining life of the securities; and (ii) unrealized gains and losses on securities reclassified from available-for-sale to held-to-maturity that are reflected in accumulated other comprehensive loss on the consolidated balance sheet and is being recognized over the life of the securities.

(2) Unrecognized holding gains and losses of held-to-maturity securities are not reflected in the financial statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as held-to-maturity; or (ii) the date that an OTTI charge is recognized on a held-to-maturity security, through the date of the balance sheet.

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	At December 31, 2012			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$3,306	855	—	4,161
Debt securities:				
Government-sponsored enterprises	3,038	—	3	3,035
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	660,095	7,573	151	667,517
Federal National Mortgage Association	689,587	16,735	194	706,128
Government National Mortgage Association	4,414	73	—	4,487
Total mortgage-backed securities available-for-sale	1,354,096	24,381	345	1,378,132
Total available-for-sale securities	$1,360,440	25,236	348	1,385,328

	At December 31, 2012					
	Amortized cost	Net unrealized gains (losses) (1)	Carrying value	Gross unrecognized gains (2)	Gross unrecognized losses (2)	Estimated fair value
	(In thousands)					
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	$147	—	147	2	—	149
Municipal bonds	21,156	—	21,156	1,138	—	22,294
Corporate and other debt securities	58,007	(28,504)	29,503	13,148	3,356	39,295
Total debt securities held-to-maturity	79,310	(28,504)	50,806	14,288	3,356	61,738
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	63,033	—	63,033	3,193	3	66,223
Federal National Mortgage Association	64,278	—	64,278	4,843	—	69,121
Federal housing authorities	1,805	—	1,805	6	—	1,811
Total mortgage-backed securities held-to-maturity	129,116	—	129,116	8,042	3	137,155
Total held-to-maturity securities	$208,426	(28,504)	179,922	22,330	3,359	198,893

(1) Unrealized gains and losses of held-to-maturity securities represent the other than temporary charge related to other non credit factors on corporate and other debt securities and is amortized through accumulated other comprehensive income over the remaining life of the securities.
(2) Unrecognized holding gains and losses of held-to-maturity securities are not reflected in the financial statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as held-to-maturity; or (ii) the date that an OTTI charge is recognized on a held-to-maturity security, through the date of the balance sheet.

Our investment portfolio is comprised primarily of fixed rate mortgage-backed securities guaranteed by a Government Sponsored Enterprise (“GSE”) as issuer. Current market conditions have not significantly impacted the pricing of our portfolio or our ability to obtain reliable prices. See note 11 for further discussion on the valuation of securities.
The changes in held-to-maturity and available-for-sale securities for the period ending September 30, 2013 is primarily attributed to a $524.0 million transfer of previously-designated available-for-sale to a held-to-maturity designation at fair value. In accordance with ASC 320, Investments - Debt and Equity Securities, the Company is required at each balance sheet date to reassess the classification of each security held. The reclassification for the

period ended September 30, 2013 is permitted as the Company has

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appropriately determined the ability and intent to hold these securities as an investment until maturity or call. The securities transferred had a net loss of $12.2 million that is reflected in accumulated other comprehensive loss on the consolidated balance sheet, net of subsequent amortization, which is being recognized over the life of the securities. Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012, was as follows:

	September 30, 2013					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available-for-sale:						
Equity securities	$506	19	—	—	506	19
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	115,148	2,638	—	—	115,148	2,638
Federal National Mortgage Association	119,897	2,717	—	—	119,897	2,717
Total mortgage-backed securities available-for-sale	235,045	5,355	—	—	235,045	5,355
Total available-for-sale	235,551	5,374	—	—	235,551	5,374
Held-to-maturity:						
Debt securities:						
Corporate and other debt securities	1,357	34	1,174	2,471	2,531	2,505
Total debt securities held-to-maturity	1,357	34	1,174	2,471	2,531	2,505
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	152,492	4,278	—	—	152,492	4,278
Federal National Mortgage Association	144,273	3,439	—	—	144,273	3,439
Total mortgage-backed securities held-to-maturity	296,765	7,717	—	—	296,765	7,717
Total held-to-maturity	298,122	7,751	1,174	2,471	299,296	10,222
Total	$533,673	13,125	1,174	2,471	534,847	15,596

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	December 31, 2012					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available-for-sale:						
Debt securities:						
Government-sponsored enterprises	$3,035	3	—	—	3,035	3
Total debt securities available-for-sale	3,035	3	—	—	3,035	3
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	125,707	135	712	16	126,419	151
Federal National Mortgage Association	67,687	194	—	—	67,687	194
Total mortgage-backed securities available-for-sale	193,394	329	712	16	194,106	345
Total available-for-sale	196,429	332	712	16	197,141	348
Held-to-maturity:						
Debt securities:						
Corporate and other debt securities	1,951	171	1,542	3,185	3,493	3,356
Total debt securities held-to-maturity	1,951	171	1,542	3,185	3,493	3,356
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	347	3	—	—	347	3
Total mortgage-backed securities held-to-maturity	347	3	—	—	347	3
Total held-to-maturity	2,298	174	1,542	3,185	3,840	3,359
Total	$198,727	506	2,254	3,201	200,981	3,707

The majority of gross unrealized losses relate to our mortgage-backed-security portfolio which are guaranteed by Government Sponsored Enterprises. These securities have been negatively impacted by the recent increase in long-term market interest rates. The remaining gross unrealized losses relate to our corporate and other debt securities whose estimated fair value of has been adversely impacted by the current economic environment, current market interest rates, wider credit spreads and credit deterioration subsequent to the purchase of these securities. This portfolio consists of 36 pooled trust preferred securities (“TruPS”), principally issued by banks. At September 30, 2013, the amortized cost (net after previous impairment charges) and estimated fair values of the trust preferred portfolio was $31.8 million and $50.0 million, respectively with 7 of the securities in an unrealized loss position (see "OTTI" for further discussion). The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the securities in an unrealized loss position before the recovery of their amortized cost basis or maturity.

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The following table summarizes the Company's pooled trust preferred securities as of September 30, 2013. The Company does not own any single-issuer trust preferred securities.

(Dollars in 000's)

Description	Class	Book Value	Fair Value	Unrealized Gains (Losses)	Number of Issuers Currently Performing	Current Deferrals and Defaults as a % of Total Collateral (1)	Expected Deferrals and Defaults as % of Remaining Collateral (2)	Excess Subordination as a % of Performing Collateral (3)	Moody's/ Fitch Credit Ratings
Alesco PF II	B1	$282.5	$399.2	$ 116.8	31	11.30 %	8.70 %	— %	Ca / C
Alesco PF III	B1	667.5	1,326.5	659.0	32	10.60 %	10.00 %	— %	Ca / C
Alesco PF III	B2	267.1	530.6	263.5	32	10.60 %	10.00 %	— %	Ca / C
Alesco PF IV	B1	343.1	476.6	133.5	36	3.50 %	12.10 %	— %	C / C
Alesco PF VI	C2	600.9	1,499.5	898.5	45	7.50 %	12.20 %	— %	Ca / C
MM Comm III	B	1,129.9	3,794.0	2,663.8	6	26.70 %	8.60 %	12.80 %	Ba1 / B
MM Comm IX	B1	65.8	25.9	(39.9)	14	34.70 %	15.60 %	— %	Ca / D
MMCaps XVII	C1	1,406.6	1,894.2	487.6	30	12.50 %	11.30 %	— %	Ca / C
MMCaps XIX	C	485.7	20.5	(465.2)	30	25.40 %	17.10 %	— %	C / C
Tpref I	B	1,375.8	1,341.8	(34.0)	8	49.20 %	9.50 %	— %	Ca / WD
Tpref II	B	3,741.5	4,601.9	860.4	16	33.40 %	13.90 %	— %	Caa3 / C
US Cap I	B2	810.9	1,518.9	708.0	29	10.50 %	10.10 %	— %	Caa1 / C
US Cap I	B1	2,413.7	4,556.7	2,143.0	29	10.50 %	10.10 %	— %	Caa1 / C
US Cap II	B1	1,250.0	2,146.0	896.0	35	14.90 %	9.20 %	— %	Caa1 / C
US Cap III	B1	1,649.4	2,277.3	627.9	28	15.40 %	14.60 %	— %	Ca / C
US Cap IV	B1	934.3	57.0	(877.3)	42	33.60 %	24.10 %	— %	C / D
Trapeza XII	C1	1,558.7	630.2	(928.5)	29	23.80 %	21.20 %	— %	C / C
Trapeza XIII	C1	1,620.3	2,365.0	744.7	41	18.40 %	16.20 %	— %	Ca / C
Pretsl XXIII	A1	558.1	1,422.2	864.1	66	20.00 %	16.80 %	31.40 %	A2 / A
Pretsl XXIV	A1	2,165.3	4,377.1	2,211.9	61	24.10 %	19.20 %	24.80 %	Baa2 / BBB
Pretsl IV	Mez	138.3	211.0	72.8	6	18.00 %	8.10 %	19.00 %	B1 / B
Pretsl V	Mez	15.8	15.6	(1.0)	—	65.50 %	— %	— %	C / WD
Pretsl VII	Mez	377.0	1,851.4	1,474.5	12	46.60 %	12.70 %	— %	Ca / C
Pretsl XV	B1	958.5	1,491.8	533.3	53	18.00 %	17.40 %	— %	C / C

Pretsl XVII	C	612.7	955.4	342.6		35	19.00	%	20.80	%	—	%	C / CC
Pretsl XVIII	C	1,415.8	1,991.7	575.9		55	20.40	%	14.00	%	—	%	Ca / C
Pretsl XIX	C	607.9	674.9	67.0		50	14.90	%	13.80	%	—	%	C / C
Pretsl XX	C	317.8	410.6	92.9		47	18.20	%	16.00	%	—	%	C / C
Pretsl XXI	C1	697.6	1,933.5	1,235.9		52	18.90	%	15.70	%	—	%	C / C
Pretsl XXIII	A-FP	935.1	1,955.6	1,020.5		92	20.70	%	14.00	%	18.30	%	A1 / BBB
Pretsl XXIV	C1	600.6	440.5	(160.0	)	61	24.10	%	19.20	%	—	%	C / C
Pretsl XXV	C1	347.1	466.1	119.0		47	26.40	%	15.00	%	—	%	C / C
Pretsl XXVI	C1	410.9	725.0	314.1		50	24.10	%	15.80	%	—	%	C / C
Pref Pretsl IX	B2	405.3	566.6	161.3		32	20.80	%	12.90	%	—	%	Caa1 / C
Pretsl II	B1	436.4	671.9	235.5		23	8.00	%	9.60	%	—	%	B
Pretsl X	C2	233.6	335.4	101.9		34	29.00	%	12.50	%	—	%	Caa3 / C
		$31,837.5	$49,958.1	$ 18,120.0									

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(1) At September 30, 2013, assumed recoveries for current deferrals and defaulted issuers ranged from 3.5% to 65.5%.
(2) At September 30, 2013, assumed recoveries for expected deferrals and defaulted issuers ranged from 8.1% to 24.1%.
(3) Excess subordination represents the amount of remaining performing collateral that is in excess of the amount needed to pay off a specified class of bonds and all classes senior to the specified class. Excess subordination reduces an investor's potential risk of loss on their investment as excess subordination absorbs principal and interest shortfalls in the event underlying issuers are not able to make their contractual payments.

A portion of the Company's securities are pledged to secure borrowings. The contractual maturities of mortgage-backed securities generally exceed 10 years; however, the effective lives are expected to be shorter due to anticipated prepayments. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer, therefore, mortgage-backed securities are not included in the following table. The carrying value and estimated fair value of debt securities at September 30, 2013, by contractual maturity, are shown below.

	September 30, 2013	
	Carrying value	Estimated fair value
	(In thousands)	
Due in one year or less	$9,863	9,863
Due after one year through five years	3,603	3,626
Due after five years through ten years	—	—
Due after ten years	36,843	55,577
Total	$50,309	69,066

Other-Than-Temporary Impairment ("OTTI")

We conduct a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

Through the use of a valuation specialist, we evaluate the credit and performance of each underlying issuer of our trust preferred securities by deriving probabilities and assumptions for default, recovery and prepayment/amortization for the expected cash flows for each security. At September 30, 2013, management deemed that the present value of projected cash flows for each security was greater than the book value and did not recognize any additional OTTI charges for the period ended September 30, 2013. At September 30, 2013, non credit-related OTTI recorded on the previously impaired pooled trust preferred securities was $26.8 million ($15.8 million after-tax).

The following table presents the changes in the credit loss component of the impairment loss of debt securities that the Company has written down for such loss as an other-than-temporary impairment recognized in earnings.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance of credit related OTTI, beginning of period	$112,886	115,759	$114,514	117,003
Additions:				
Initial credit impairments	—	—	—	—
Subsequent credit impairments	—	—	—	—
Reductions:				
Accretion of credit loss impairment due to an increase in expected cash flows	(814)	(623)	(2,442)	(1,867)

Balance of credit related OTTI, end of period	$112,072	115,136	$112,072	115,136

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the securities prior to considering credit losses. The beginning balance represents the credit loss

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component for debt securities for which other-than-temporary impairment occurred prior to the period presented. If other-than-temporary impairment is recognized in earnings for credit impaired debt securities, they would be presented as additions in two components based upon whether the current period is the first time a debt security was credit impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell or revises its estimate about the previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) the Company receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

Realized Gains and Losses

Gains and losses on the sale of all securities are determined using the specific identification method. For the three months ended September 30, 2013, the Company realized a $15,000 gain on capital distributions of equity securities from the available-for-sale portfolio. For the three months ended September 30, 2013, there were no losses recognized. For the nine months ended September 30, 2013, proceeds from sales of securities from available-for-sale portfolio were $56.0 million, which resulted in gross realized gains of $846,100 and $162,300 gross realized losses as well as $22,000 of gains on capital distributions of equity securities. For the three and nine months ended September 30, 2013, there were no sales of securities from held-to-maturity portfolio.

For three months ended September 30, 2012, proceeds from sales of securities from available-for-sale portfolio were $8.0 million, which resulted in gross realized gains of $138,000 and no gross realized losses. For the nine months ended September 30, 2012, proceeds from sales of securities from the available-for-sale portfolio were $8.6 million, which resulted in gross realized gains of $176,000 and no gross realized losses. During the nine months ended September 30, 2012, the Company sold $166.8 million of available-for-sale agency mortgage backed securities that were acquired in the acquisition of Brooklyn Federal Bancorp, Inc. The sales did not result in any gross realized gains or gross realized losses. In addition, the Company realized a $33,000 loss on capital distributions of equity securities during the nine months ended September 30, 2012.

For the three months ended September 30, 2012, proceeds from sales of securities from the held-to-maturity portfolio were $14.2 million, which resulted in gross realized gains of $159,000 and gross realized losses of $51,000. For the nine months ended September 30, 2012, proceeds from sales of securities from the held-to-maturity portfolio were $14.9 million, which resulted in gross realized gains of $193,000 and $51,000 in gross realized losses. Sales from the held-to-maturity portfolio met the criteria of principal pay downs under 85% of the original investment amount and therefore do not result in a tainting of the held-to-maturity portfolio. The Company sells securities when market pricing presents, in management's assessment, an economic benefit that outweighs holding such securities, and when smaller balance securities become cost prohibitive to carry.

5. Loans Receivable, Net

The detail of the loan portfolio as of September 30, 2013 and December 31, 2012 was as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Residential mortgage loans	$5,132,745	4,837,838
Multi-family loans	3,557,333	2,995,052
Commercial real estate loans	2,190,099	1,966,156
Construction loans	218,391	224,816
Consumer and other loans	224,029	238,922
Commercial and industrial loans	195,187	168,943
Total loans excluding PCI loans	11,517,784	10,431,727
PCI loans	6,474	6,744
Net unamortized premiums and deferred loan costs	16,533	10,487
Allowance for loan losses	(166,779)	(142,172)

Net loans	$11,374,012	10,306,786

Purchased Credit-Impaired Loans

Purchased Credit-Impaired ("PCI") loans, are loans acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses).

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The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the PCI loans acquired in Marathon Bank acquisition as of October 15, 2012:

	October 15, 2012
	(In thousands)
Contractually required principal and interest	$11,774
Contractual cash flows not expected to be collected (non-accretable difference)	(4,163)
Expected cash flows to be collected	7,611
Interest component of expected cash flows (accretable yield)	(1,537)
Fair value of acquired loans	$6,074

The following table presents changes in the accretable yield for PCI loans:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
	(In thousands)	
Balance, beginning of period	$1,212	1,457
Acquisitions	—	—
Accretion	(135)	(380)
Net reclassification from non-accretable difference	—	—
Balance, end of period	$1,077	1,077

An analysis of the allowance for loan losses is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of the period	$154,467	128,474	142,172	117,242
Loans charged off	(2,484)	(15,332)	(19,219)	(36,474)
Recoveries	1,046	2,124	2,576	2,498
Net charge-offs	(1,438)	(13,208)	(16,643)	(33,976)
Provision for loan losses	13,750	16,000	41,250	48,000
Balance at end of the period	$166,779	131,266	166,779	131,266

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. GAAP, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. No allowance has been provided for the loans acquired in the Brooklyn Federal Savings Bank and Marathon Bank transaction as the loans were marked to fair value on the date of acquisition and there has been no significant subsequent credit deterioration.

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Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $1.0 million and on non-accrual status, loans modified in a troubled debt restructuring ("TDR"), and other loans if management has specific information of a collateral shortfall. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company's definition of an impaired loan, by type of loan, risk rating (if applicable) and payment history. In addition, the Company also considers whether residential loans are fixed or adjustable rate. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

On a quarterly basis, management's Allowance for Loan Loss Committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance or charge-off if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances and the methodology employed to determine such allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination of commercial real estate loans, multi-family loans and the origination and purchase of residential mortgage loans. We also originate commercial and industrial loans, home equity loans and home equity lines of credit. These activities resulted in a concentration of loans secured by real estate property located in New Jersey and New York. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a continued decline in the general economy, and a further decline in real estate market values in New Jersey, New York and surrounding states. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions and the composition of the portfolio. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its loan workout department's knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company's policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every 2 years if the loan remains in non-performing status and the foreclosure process has not been completed. Additionally, management adjusts the appraised value of residential loans to reflect estimated selling costs and declines in the real estate market.

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Management believes the potential risk for outdated appraisals for impaired and other non-performing loans has been mitigated due to the fact that the loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

Our allowance for loan losses reflects probable losses considering, among other things, the continued adverse economic conditions, the actual growth and change in composition of our loan portfolio, the level of our non-performing loans and our charge-off experience. In addition, the allowance considers the inherent credit risk in the overall portfolio, particularly the credit risk associated with commercial real estate lending and commercial and industrial lending. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current economic environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2013 and December 31, 2012:

	September 30, 2013							
	Residential Mortgage	Multi-Family	Commercial Real Estate	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Unallocated	Total
	(In thousands)							
Allowance for loan losses:								
Beginning balance-December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Charge-offs	(13,223)	(1,226)	(792)	(3,104)	(83)	(791)	—	(19,219)
Recoveries	1,564	72	36	254	603	47	—	2,576
Provision	17,365	6,625	12,024	(835)	2,140	808	3,123	41,250
Ending balance-September 30, 2013	$51,075	35,324	44,615	12,377	6,754	2,150	14,484	166,779
Individually evaluated for impairment	$2,074	—	—	—	—	—	—	2,074
Collectively evaluated for impairment	49,001	35,324	44,615	12,377	6,754	2,150	14,484	164,705
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at September 30, 2013	$51,075	35,324	44,615	12,377	6,754	2,150	14,484	166,779
Loans:								
Individually evaluated for impairment	$19,762	16,510	11,739	17,747	1,627	—	—	67,385
Collectively evaluated for impairment	5,112,983	3,540,824	2,178,359	200,644	193,560	224,029	—	11,450,399
Loans acquired with deteriorated credit quality	486	446	5,542	—	—	—	—	6,474
Balance at September 30, 2013	$5,133,231	3,557,780	2,195,640	218,391	195,187	224,029	—	11,524,258

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	December 31, 2012							
	Residential Mortgage	Multi-Family	Commercial Real Estate	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Unallocated	Total
	(In thousands)							
Allowance for loan losses:								
Beginning balance-December 31, 2011	$32,447	13,863	30,947	22,839	3,677	1,335	12,134	117,242
Charge-offs	(20,180)	(9,058)	(479)	(13,227)	(99)	(1,107)	—	(44,150)
Recoveries	593	—	43	3,387	23	34	—	4,080
Provision	32,509	25,048	2,836	3,063	493	1,824	(773)	65,000
Ending balance-December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Individually evaluated for impairment	$2,142	—	—	—	—	—	—	2,142
Collectively evaluated for impairment	43,227	29,853	33,347	16,062	4,094	2,086	11,361	140,030
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Balance at December 31, 2012	$45,369	29,853	33,347	16,062	4,094	2,086	11,361	142,172
Loans:								
Individually evaluated for impairment	$12,235	10,574	7,075	26,314	1,208	—	—	57,406
Collectively evaluated for impairment	4,825,603	2,984,478	1,959,081	198,502	167,735	238,922	—	10,374,321
Loans acquired with deteriorated credit quality	477	419	5,533	—	315	—	—	6,744
Balance at December 31, 2012	$4,838,315	2,995,471	1,971,689	224,816	169,258	238,922	—	10,438,471

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. For non-homogeneous loans, such as commercial and commercial real estate loans the Company analyzes the loans individually by classifying the loans as to credit risk and assesses the probability of collection for each type of class. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass - “Pass” assets are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

Special Mention - A “Special Mention” asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Residential loans delinquent 30-89 days are considered special mention.

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Substandard - A “Substandard” asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Residential and consumer and other loans delinquent 90 days or greater are considered substandard.

Doubtful - An asset classified “Doubtful” has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss - An asset or portion thereof, classified “Loss” is considered uncollectible and of such little value that its continuance on the institution’s books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery will occur. As such, it is not practical or desirable to defer the write-off.

The following tables present the risk category of loans as of September 30, 2013 and December 31, 2012 by class of loans excluding the PCI loans:

	September 30, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total