Investors Bancorp Inc
Form 10-K
March 01, 2011

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SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549
Form 10-K

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

For the Fiscal Year Ended December 31, 2010

or

o **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. 000-51557

Investors Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(973) 924-5100

(Registrant s telephone number)

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

Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**
(Title of Class)	***(Name of each exchange on which registered)***

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 o No þ

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 o No þ

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 þ No o

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 þ No o

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. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a 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 þ

As of February 22, 2011, the registrant had 118,020,280 shares of common stock, par value $0.01 per share, issued and 113,274,092 shares outstanding, of which 64,844,373 shares, or 57.3%, were held by Investors Bancorp, MHC, the registrant s mutual holding company.

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 June 30, 2010, as reported by the NASDAQ Global Select Market, was approximately $656.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2011 Annual Meeting of Stockholders of the Registrant (Part III).

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PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements may be identified by the use of the words anticipate, believe, could, estimate, expect, intend, may, outlook, plan, potential, predict, pro and similar terms and phrases, including references to assumptions.

Forward-looking statements are based on various assumptions and analyses made by us in light of our management s experience and its perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond our control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins or affect the value of our investments;
- changes in deposit flows, loan demand or real estate values may adversely affect our business;
- changes in accounting principles, policies or guidelines may cause our financial condition to be perceived differently;
- general economic conditions, either nationally or locally in some or all areas in which we do business, or conditions in the real estate or securities markets or the banking industry may be less favorable than we currently anticipate;
- legislative or regulatory changes may adversely affect our business;
- technological changes may be more difficult or expensive than we anticipate;
- success or consummation of new business initiatives may be more difficult or expensive than we anticipate;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may be determined adverse to us or may delay the occurrence or non-occurrence of events longer than we anticipate;
- the risks associated with continued diversification of assets and adverse changes to credit quality;
- difficulties associated with achieving expected future financial results; and
- the risk of continued economic slowdown that would adversely affect credit quality and loan originations.

We have no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

As used in this Form 10-K, we, us and our refer to Investors Bancorp, Inc. and its consolidated subsidiaries, principally Investors Savings Bank.

PART I

ITEM 1. BUSINESS

Investors Bancorp, Inc.

Investors Bancorp, Inc. (the Company) is a Delaware corporation that was organized on January 21, 1997 for the purpose of being a holding company for Investors Savings Bank (the Bank), a New Jersey chartered savings bank. On October 11, 2005, the Company completed its initial public stock offering in which it sold 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by the Investors Savings Bank Employee Stock Ownership Plan (the ESOP). Upon completion of the initial public offering, Investors Bancorp, MHC (the MHC), the Company s New Jersey chartered mutual holding company parent, held 63,099,781 shares, or 54.27% of the Company s outstanding common stock. Additionally, the Company contributed $5,163,000 in cash and issued 1,548,813 shares of common stock, or 1.33% of its outstanding shares, to the Investors Savings Bank Charitable Foundation.

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Since the formation of the Company in 1997, our primary business has been that of holding the common stock of the Bank and additionally since our stock offering, a loan to the ESOP. Investors Bancorp, Inc., as the holding company of Investors Savings Bank, is authorized to pursue other business activities permitted by applicable laws and regulations for bank holding companies.

Our cash flow depends on dividends received from Investors Savings Bank. Investors Bancorp, Inc. neither owns nor leases any property, but instead uses the premises, equipment and furniture of Investors Savings Bank. At the present time, we employ as officers only certain persons who are also officers of Investors Savings Bank and we use the support staff of Investors Savings Bank from time to time. These persons are not separately compensated by Investors Bancorp, Inc. Investors Bancorp, Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

On October 15, 2010, the Company completed its acquisition of Millennium bcpbank (Millennium) deposit franchise. In this transaction the Company acquired approximately $600.0 million of deposits and seventeen branches in New Jersey, New York and Massachusetts for a deposit premium of 0.11%. In addition, the Company purchased a portion of Millennium s performing loan portfolio and entered into a loan servicing agreement to service those loans it did not purchase. The Company recorded a bargain purchase gain of $1.8 million in connection with the purchase of the Millennium deposit franchise and servicing of their loan portfolio. The Company also entered into a definitive agreement to sell the Millennium branch locations in Massachusetts to Admirals Bank, headquartered in Cranston, Rhode Island. The transaction is anticipated to close during the second quarter 2011.

On October 16, 2009, the Company completed the acquisition of six New Jersey bank branches and approximately $227.0 million of deposits from Banco Popular North America. The Company did not purchase any loans as part of the transaction. The transaction generated approximately $4.9 million in goodwill.

On May 31, 2009, the Company completed the acquisition of American Bancorp of New Jersey, Inc. (American Bancorp), the holding company of American Bank of New Jersey (American Bank), a federal savings bank with approximately $680.0 million in assets and five full-service branches in northern New Jersey. The acquisition was accounted for under the purchase method of accounting as prescribed by Accounting Standard Codification (ASC) 805, Business Combinations, as amended. Accordingly, American Bancorp s results of operations have been included in the Company s results of operations since the date of acquisition. Under this method of accounting, the purchase price is 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 is recorded as goodwill. The purchase price of $98.2 million was paid through a combination of the Company s common stock (6,503,897 shares) and cash of $47.5 million. The transaction generated approximately $17.6 million in goodwill and $3.9 million in core deposit intangibles subject to amortization beginning June 1, 2009. American Bank was merged into the Bank as of the acquisition date.

On June 6, 2008, Investors Bancorp, MHC, the Company s New Jersey chartered mutual holding company, completed its merger of Summit Federal Bankshares, MHC, a federally chartered mutual holding company. The merger was a combination of mutual enterprises and therefore was accounted for using the pooling-of-interests method. All financial information prior to the merger date has been restated to include amounts for Summit Federal for all periods presented. At the merger date, Summit Federal had assets of $110.0 million and five full service branches in northern New Jersey. The effect of the merger on the Company s consolidated financial condition and results of operations was immaterial. In connection with the merger, the Company, as required by the Office of Thrift Supervision (OTS) which regulated Summit Federal, issued 1,744,592 additional shares of its common stock to Investors Bancorp, MHC.

Investors Savings Bank

General

Investors Savings Bank is a New Jersey-chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926 as a New Jersey-chartered mutual savings and loan association, we have grown through acquisitions and internal growth, including de novo branching. In 1992, we converted our charter to a mutual savings bank, and in 1997 we converted our charter to a New Jersey-chartered stock savings bank. We conduct business from our main office located at 101 JFK Parkway, Short Hills, New Jersey, and 82 branch offices located throughout northern and central New Jersey, New York and Massachusetts. The telephone number at our main office is (973) 924-5100. At December 31, 2010, our assets totaled $9.60 billion and our deposits totaled $6.77 billion.

We are in the business of attracting deposits from the public through our branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. We originate mortgage loans secured by one- to four-family residential real estate, commercial real estate, construction, multi-family loans, commercial and industrial loans and consumer loans, the majority of which are home equity loans and home equity lines of credit. Securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities represented 11.3% of our assets at December 31, 2010. We offer a variety of deposit accounts and emphasize quality customer service. Investors Savings Bank is subject to comprehensive regulation and examination by both the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation and we are subject to regulations as a bank holding company by the Federal Reserve Board.

Our results of operations are dependent primarily on our net interest income, which is the difference between the interest earned on our assets, primarily our loan and securities portfolios, and the interest paid on our deposits and borrowings. Our net income is also affected by our provision for loan losses, non-interest income, non-interest expense and income tax expense. Non-interest income includes fees and service charges; income from bank owned life insurance, or BOLI; net gain on sales of mortgage loans; net gain on securities; and other income. Non-interest expense consists of compensation and benefits expense; advertising and promotional expense; office occupancy and equipment expense; federal deposit insurance premiums; stationary, printing, supplies and telephone expense; professional fees; data processing fees; and other operating expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

Market Area

We are headquartered in Short Hills, New Jersey, and our primary deposit gathering area is concentrated in the communities surrounding our headquarters and our 82 branch offices located in the communities of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties, New Jersey; Nassau and Queens, New York and Massachusetts. Our primary lending area is broader than our deposit-gathering area and includes 14 counties in New Jersey and 6 counties in New York. It is largely urban and suburban with a broad economic base as is typical for counties in and surrounding the New York metropolitan area. As one of the wealthiest states in the nation, New Jersey, with a population of 8.8 million, is considered one of the most attractive banking markets in the United States.

Our entry into the New York market, which started in 2010 with the the opening of our New York City lending office and the acquisition of the Millennium branches, allows us to continue to expand our retail operations and geographic footprint.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2015. Though slower population growth is projected for some of the counties we serve, it is important to note that these counties represent some of the most densely populated counties. All of the counties we serve have a strong mature market with median household incomes greater than $53,000. The household incomes in the counties we serve are all expected to increase in a range from 14.12% to 17.54% through 2015. The December 2010 unemployment rates for New Jersey and New York, 8.7% and 8.0%, respectively, were slightly lower than the national rate of 9.4%.

Competition

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of June 30, 2010, the latest date for which statistics are available, our market share of deposits was 2.5% of total deposits in the State of New Jersey.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

While our principal lending activity continues to be the origination and purchase of mortgage loans collateralized by residential real estate, in recent years we have focused on growing our commercial real estate portfolio. Residential mortgage loans represented $4.94 billion, or 61.8% of our total loans at December 31, 2010 compared to $2.69 billion, or 90.3% of our total loans at June 30, 2006. At December 31, 2010, commercial real estate totaled $1.23 billion, or 15.3% of our total loan portfolio, multi-family loans totaled $1.16 billion, or 14.5% of our total loan portfolio, construction loans totaled $347.8 million, or 4.4% of our total loan portfolio, and commercial and industrial loans totaled $60.9 million or 0.8% of our total loan portfolio. We also offer consumer loans, which consist primarily of home equity loans and home equity lines of credit. At December 31, 2010, consumer loans totaled $259.8 million or 3.3% of our total loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated.

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	December 31,				June 30,						
	2010		2009		2009		2008		2007		20
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
							(Dollars in thousands)				
	$ 4,922,901	61.58%	$ 4,756,042	71.50%	$ 4,690,335	76.00%	$ 3,989,334	85.54%	$ 3,159,484	87.51%	$ 2,669,72
	16,343	0.20	17,514	0.26	18,564	0.30	20,229	0.43	22,624	0.63	24,92
	4,939,244	61.78	4,773,556	71.76	4,708,899	76.30	4,009,563	85.97	3,182,108	88.14	2,694,65
	1,161,874	14.53	612,743	9.21	482,783	7.82	82,711	1.77	40,066	1.11	10,93
	1,225,256	15.33	730,012	10.97	433,204	7.02	142,396	3.06	69,282	1.92	68,08
n	347,825	4.35	334,480	5.03	346,967	5.62	260,177	5.58	153,420	4.25	66,20
	60,903	0.76	23,159	0.35	15,665	0.25	47				
	147,540	1.84	104,864	1.58	119,193	1.93	139,587	2.99	139,524	3.86	113,57
	108,356	1.36	70,341	1.06	61,664	1.00	27,270	0.59	23,927	0.66	28,06
	3,861	0.05	2,972	0.04	3,341	0.06	1,962	0.04	1,993	0.06	1,72
l	259,757	3.25	178,177	2.68	184,198	2.99	168,819	3.62	165,444	4.58	143,35
	$ 7,994,859	100.00%	$ 6,652,127	100.00%	$ 6,171,716	100.00%	$ 4,663,713	100.00%	$ 3,610,320	100.00%	$ 2,983,24
	22,021		22,958		21,313		22,622		23,587		20,32
a	(8,244)		(4,574)		(3,252)		(2,620)		(1,958)		(1,76
	(90,931)		(55,052)		(46,608)		(13,565)		(6,951)		(6,36

$ 7,917,705	$ 6,615,459	$ 6,143,169	$ 4,670,150	$ 3,624,998	$ 2,995,43

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2010. Overdraft loans are reported as being due in one year or less.

	At December 31, 2010						
	Residential Mortgage	Multi-Family	Commercial	Construction Loans (In thousands)	Commercial and Industrial loans	Consumer and Other Loans	Total
Amounts Due:							
One year or less	$ 7,819	15,933	53,339	235,449	24,625	4,601	341,766
After one year:							
One to three years	14,302	195,727	254,443	93,618	4,698	16,553	579,341
Three to five years	8,415	175,800	139,809	13,145	6,920	14,828	358,917
Five to ten years	215,554	688,396	665,270	200	23,267	81,649	1,674,336
Ten to twenty years	906,174	82,557	108,567	5,413	1,393	75,231	1,179,335
Over twenty years	3,786,980	3,461	3,828			66,895	3,861,164
Total due after one year	4,931,425	1,145,941	1,171,917	112,376	36,278	255,156	7,653,093
Total loans	$ 4,939,244	1,161,874	1,225,256	347,825	60,903	259,757	7,994,859
Premiums on purchased loans, net							22,021
Deferred loan fees, net							(8,244)
Allowance for loan losses							(90,931)
Net loans							$ 7,917,705

The following table sets forth fixed- and adjustable-rate loans at December 31, 2010 that are contractually due after December 31, 2011.

	Due After December 31, 2011		
	Fixed	Adjustable (In thousands)	Total
Residential mortgage loans	$ 2,895,662	2,035,763	4,931,425
Multi-family	562,321	583,620	1,145,941

Commercial	777,570	394,347	1,171,917
Construction loans	12,607	99,769	112,376
Commercial and industrial	34,776	1,502	36,278
Consumer and other loans:			
Home equity loans	147,161		147,161
Home equity credit lines		107,646	107,646
Other		349	349
Total consumer and other loans	147,161	107,995	255,156
Total loans	$ 4,430,097	3,222,996	7,653,093

Residential Mortgage Loans. Currently, our primary lending activity is originating and purchasing residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At December 31, 2010, $4.94 billion, or 61.8%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, ISB Mortgage Company LLC (ISB Mortgage), for our loan portfolio and for sale to third parties. We also purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases we acquire the loans with servicing rights, but we have some arrangements in which the correspondent entity will sell us the loan without servicing rights. In addition, we purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. While some of these financial institutions retain the servicing rights for loans they sell to us, when presented with the opportunity to purchase the servicing rights as part of the loan, we may decide to purchase the servicing rights. This decision is generally based on the price and other relevant factors.

Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property to a maximum loan amount of $750,000. Loans over $750,000 require a lower loan to value ratio. Loans in excess of 80% of value require private mortgage insurance and cannot exceed $500,000. We will not make loans with a loan-to-value ratio in excess of 95% or 97% for programs to low or moderate-income borrowers. Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At December 31, 2010, we held $2.90 billion in fixed-rate residential mortgage loans which represented 58.8% of our residential mortgage loan portfolio.

We also offer adjustable-rate residential mortgage loans, which adjust annually after three, five, seven or ten year initial fixed-rate periods. Our adjustable rate loans usually adjust to an index plus a margin, based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year. Annual caps of 2% per adjustment apply, with a lifetime maximum adjustment of 5% on most loans. Our adjustable-rate mortgage loans amortize over terms of up to 30 years. In addition, we originate interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. Borrowers are qualified using the loan rate at the date of origination and the fully amortized payment amount.

Adjustable-rate mortgage loans decrease the Bank s risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates or a decline in housing values. The maximum periodic and lifetime interest rate adjustments may limit the effectiveness of adjustable-rate mortgages during periods of rapidly rising interest rates. At December 31, 2010, we held $2.04 billion of adjustable-rate residential mortgage loans, of which $529.1 million were interest-only one-to four-family mortgages. Adjustable-rate residential mortgage loans represented 41.2% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer various loan programs some of which include down payment assistance for home purchases. Through these programs, qualified individuals receive a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met.

All residential mortgage loans we originate include a due-on-sale clause, which gives us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Multi-family and Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, we offer mortgages on multi-family and commercial real estate properties. At December 31, 2010, $1.16 billion, or 14.5%, of our total loan portfolio was multi-family and $1.23 billion or 15.3% of our total loan portfolio was commercial real estate loans. Our policy generally has been to originate multi-family and commercial real estate loans in New Jersey, New York and surrounding states. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. The multi-family and commercial real estate loans in our portfolio consist of both fixed-rate and adjustable-rate loans which were originated at prevailing market rates. Multi-family and commercial real estate loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years. The maximum loan-to-value ratio is 70% for our commercial real estate loans and 75% for multi-family loans. At December 31, 2010, our largest commercial real estate loan was $30.0 million and is on an industrial building in New Jersey. Our largest multi-family loan was $29.0 million and is on a high rise apartment building in New Jersey.

We consider a number of factors when we originate multi-family and commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service for apartment buildings and 130% for commercial income-producing properties. All commercial real estate loans are appraised by outside independent appraisers who have been approved by our Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio of the proposed loan and other factors. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

Loans secured by commercial real estate generally are larger than residential mortgage loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, management annually evaluates the performance of all commercial loans in excess of $1.0 million.

Construction Loans. We offer loans directly to builders and developers on income-producing properties and residential for-sale housing units. At December 31, 2010, we held $347.8 million in construction loans representing 4.4% of our total loan portfolio. Construction loans are originated through our commercial lending department. If the loan applicant meets our criteria, we issue a letter of intent listing the terms and conditions of any potential loan. Primarily we offer adjustable-rate residential construction loans which can be structured with an option for permanent mortgage financing once the construction is completed. Generally, construction loans will be structured to be repaid over a three-year period and generally will be made in amounts of up to 70% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for sold units requires an executed sales contract.

Construction loans generally involve a greater degree of credit risk than residential mortgage loans. The risk of loss on a construction loan depends on the accuracy of the initial estimate of the property s value when the construction is completed compared to the estimated cost of construction. For all loans, we use outside independent appraisers approved by our Board of Directors. We require all borrowers to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance. A detailed plan and cost review by an outside engineering firm is required on loans in excess of $2.5 million.

At December 31, 2010, the Bank s largest construction loan was a $34.0 million note on an apartment-rental project in New Jersey. The loan had an outstanding balance at December 31, 2010 of $11.7 million and was performing in accordance with contractual terms.

Commercial and Industrial Loans. We offer commercial and industrial loans. These loans include term loans, lines of credit and owner occupied commercial real estate loans. These loans are generally secured by real estate or business assets and include personal guarantees. The loan to value limit is 75% and businesses will typically have at least a 2 year history. At December 31, 2010, $60.9 million, or 0.76%, of our loan portfolio consisted of these types of loans.

Consumer Loans. We offer consumer loans, most of which consist of home equity loans and home equity lines of credit. Home equity loans and home equity lines of credit are secured by residences located in New Jersey and New York. At December 31, 2010, consumer loans totaled $259.8 million or 3.3% of our total loan portfolio. The underwriting standards we use for home equity loans and home equity lines of credit include a determination of the applicant s credit history, an assessment of the applicant s ability to meet existing credit obligations, the payment on the proposed loan and the value of the collateral securing the loan. The combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is generally limited to a maximum of 80%. Home equity loans are offered with fixed rates of interest, terms up to 30 years and to a maximum of $500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in *The Wall Street Journal*.

The following table shows our loan originations, loan purchases and repayment activities with respect to our portfolio of loans receivable for the periods indicated. Origination, sale and repayment activities with respect to our loans-held-for-sale are excluded from the table.

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	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,	
	2010	2009	2009	2009	2008
			(In thousands)		
Loan originations and purchases:					