

OCEANFIRST FINANCIAL CORP
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 30, 2011

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

For the transition period from to

Commission file number 001-11713

OceanFirst Financial Corp.

(Exact name of registrant as specified in its charter)

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| | |
|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 22-3412577 (I.R.S. Employer Identification No.) |
| 975 Hooper Avenue, Toms River, NJ (Address of principal executive offices) | 08754-2009 (Zip Code) |
| Registrant's telephone number, including area code: (732) 240-4500 | |

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

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

Indicate by check mark 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 <input type="checkbox"/> | Accelerated Filer <input checked="" type="checkbox"/> |
| Non-accelerated Filer <input type="checkbox"/> | Smaller Reporting Company <input type="checkbox"/> |

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

As of August 4, 2011, there were 18,846,122 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

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OceanFirst Financial Corp.

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(dollars in thousands, except per share amounts)

| | June 30, 2011 | At or for the Quarter Ended December 31, 2010 | June 30, 2010 |
|--|---------------|--|---------------|
|--|---------------|--|---------------|

SELECTED FINANCIAL CONDITION DATA:

| | | | |
|-----------------------|--------------|--------------|--------------|
| Total assets | \$ 2,239,011 | \$ 2,251,330 | \$ 2,219,682 |
| Loans receivable, net | 1,617,812 | 1,660,788 | 1,667,472 |
| Deposits | 1,639,230 | 1,663,968 | 1,539,972 |
| Stockholders' equity | 213,367 | 201,251 | 194,828 |

SELECTED OPERATING DATA:

| | | | |
|----------------------------|--------|--------|--------|
| Net interest income | 19,645 | 18,880 | 19,697 |
| Provision for loan losses | 2,200 | 2,000 | 2,200 |
| Other income | 3,897 | 4,527 | 3,598 |
| Operating expenses | 13,385 | 13,926 | 13,260 |
| Net income | 5,103 | 5,784 | 4,951 |
| Diluted earnings per share | 0.28 | 0.32 | 0.27 |

SELECTED FINANCIAL RATIOS:

| | | | |
|--|-------|-------|-------|
| Stockholders' equity per common share | 11.32 | 10.69 | 10.35 |
| Cash dividend per share | 0.12 | 0.12 | 0.12 |
| Stockholders' equity to total assets | 9.53% | 8.94% | 8.78% |
| Return on average assets (1) | 0.90 | 1.02 | 0.90 |
| Return on average stockholders' equity (1) | 9.87 | 11.54 | 10.54 |
| Average interest rate spread | 3.56 | 3.39 | 3.65 |
| Net interest margin | 3.67 | 3.52 | 3.78 |
| Operating expenses to average assets (1) | 2.37 | 2.46 | 2.42 |
| Efficiency ratio | 56.86 | 59.50 | 56.92 |

ASSET QUALITY:

| | | | |
|--|-----------|-----------|-----------|
| Non-performing loans | \$ 46,714 | \$ 37,537 | \$ 29,213 |
| Non-performing assets | 49,521 | 39,832 | 31,820 |
| Non-performing loans as a percent of total loans receivable | 2.85% | 2.23% | 1.73% |
| Non-performing assets as a percent of total assets | 2.21 | 1.77 | 1.43 |
| Allowance for loan losses as a percent of total loans receivable | 1.31 | 1.17 | 1.02 |
| Allowance for loan losses as a percent of total non-performing loans | 45.93 | 52.48 | 58.69 |

(1) Ratios are annualized

Table of Contents**Summary**

OceanFirst Financial Corp. is the holding company for OceanFirst Bank (the Bank), a community bank serving Ocean and Monmouth Counties in New Jersey. The term the Company refers to OceanFirst Financial Corp., OceanFirst Bank and all of the Bank's subsidiaries on a consolidated basis. The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from loan sales, loan servicing, loan originations, merchant credit card services, deposit accounts, the sale of investment products, trust and asset management services and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, data processing, and federal deposit insurance. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Throughout 2010, and continuing into 2011, short-term interest rates remained low and the interest rate yield curve was unusually steep. The interest rate environment has generally had a positive impact on the Company's results of operations and net interest margin. Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. In late 2010, the Company's net interest margin contracted due to the investment of strong deposit flows into interest-earning deposits and investment securities at modest net interest spread. Additionally, high loan refinance volume caused yields on loans and mortgage-backed securities to reset downward. Although the net interest margin expanded in the first and second quarters of 2011, as compared to the fourth quarter of 2010, the net interest margin remains below the levels of the corresponding prior year quarter. The expansion of the net interest margin compared to the fourth quarter of 2010 is primarily due to a decrease in the cost of transaction deposits. In addition to the interest rate environment, the Company is dependent upon national and local economic conditions. The overall economy remains weak with continued high unemployment coupled with concern surrounding the housing market. These economic conditions have had an adverse impact on the Company's results of operations as the provision for loan losses remains elevated compared to historical levels.

Highlights of the Company's financial results for the three and six months ended June 30, 2011 were as follows:

Total assets decreased to \$2.239 billion at June 30, 2011, from \$2.251 billion at December 31, 2010. Loans receivable, net decreased \$43.0 million, or 2.6%, at June 30, 2011, as compared to December 31, 2010 primarily due to sales and prepayments of one-to-four family loans and limited loan origination volume. Investment securities available for sale increased by \$41.2 million, to \$133.1 million at June 30, 2011, from \$91.9 million at December 31, 2010.

Deposits decreased by \$24.7 million, or 1.5%, at June 30, 2011, as compared to December 31, 2010. The decline was concentrated in time deposits, which decreased \$22.8 million, as the Bank continued to moderate its pricing for this product. At June 30, 2011, core deposits, defined as all deposits excluding time deposits, a key focus for the Company, represented 84.0% of total deposits.

Diluted earnings per share increased 3.7%, to \$0.28 for the quarter ended June 30, 2011, from \$0.27 for the corresponding prior year quarter. For the six months ended June 30, 2011 diluted earnings per share increased 9.8%, to \$0.56, as compared to \$0.51 for the corresponding prior year period.

The net interest margin expanded on a linked quarter basis to 3.67% for the three months ended June 30, 2011, as compared to 3.60% for the three months ended March 31, 2011.

The provision for loan losses was \$2.2 million and \$3.9 million, respectively, for the three and six months ended June 30, 2011, as compared to \$2.2 million and \$4.4 million, respectively, for the corresponding prior year periods. The provision for loan losses exceeded net loan charge-offs of \$1.2 million and \$2.1 million, respectively, for the three and six months ended June 30, 2011. The Company's non-performing loans totaled \$46.7 million at June 30, 2011, an increase from \$37.5 million at December 31, 2010 primarily due to the addition of one large commercial real estate relationship and an increase in non-performing one-to-four family loans.

The Company remains well-capitalized with a tangible common equity ratio of 9.53%. Return on average stockholders' equity was 9.87% and 9.99%, respectively, for the three and six months ended June 30, 2011, as compared to 10.54% and 10.08%, respectively, for the corresponding prior year periods generally resulting from the Company's desire to continue to build equity.

Table of Contents**Analysis of Net Interest Income**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to the Company for the three and six months ended June 30, 2011 and 2010. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

| | FOR THE THREE MONTHS ENDED JUNE 30, | | | | | |
|--|-------------------------------------|-----------|---|--------------------|-----------|---------------------------|
| | 2011 | | | 2010 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST (dollars in thousands) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits and short-term | | | | | | |
| investments | \$ 14,923 | \$ 8 | .21% | \$ | \$ | % |
| Investment securities (1) | 141,190 | 343 | .97 | 55,975 | 141 | 1.01 |
| FHLB stock | 18,014 | 195 | 4.33 | 24,189 | 255 | 4.22 |
| Mortgage-backed securities (1) | 336,464 | 2,667 | 3.17 | 360,030 | 3,185 | 3.54 |
| Loans receivable, net (2) | 1,628,701 | 21,024 | 5.16 | 1,643,066 | 22,226 | 5.41 |
| Total interest-earning assets | 2,139,292 | 24,237 | 4.53 | 2,083,260 | 25,807 | 4.96 |
| Non-interest-earning assets | 116,716 | | | 110,944 | | |
| Total assets | \$ 2,256,008 | | | \$ 2,194,204 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | \$ 1,256,710 | 1,504 | .48 | \$ 1,031,378 | 2,063 | .80 |
| Time deposits | 266,868 | 1,189 | 1.78 | 305,179 | 1,417 | 1.86 |
| Total | 1,523,578 | 2,693 | .71 | 1,336,557 | 3,480 | 1.04 |
| Borrowed funds | 374,363 | 1,899 | 2.03 | 530,071 | 2,630 | 1.98 |
| Total interest-bearing liabilities | 1,897,941 | 4,592 | .97 | 1,866,628 | 6,110 | 1.31 |
| Non-interest-bearing deposits | 139,709 | | | 126,745 | | |
| Non-interest-bearing liabilities | 11,562 | | | 12,900 | | |
| Total liabilities | 2,049,212 | | | 2,006,273 | | |
| Stockholders equity | 206,796 | | | 187,931 | | |
| Total liabilities and stockholders equity | \$ 2,256,008 | | | \$ 2,194,204 | | |
| Net interest income | | \$ 19,645 | | | \$ 19,697 | |
| Net interest rate spread (3) | | | 3.56% | | | 3.65% |

| | | |
|-------------------------|-------|-------|
| Net interest margin (4) | 3.67% | 3.78% |
|-------------------------|-------|-------|

| | FOR THE SIX MONTHS ENDED JUNE 30, | | | | | |
|--|-----------------------------------|-----------|---|--------------------|-----------|---------------------------|
| | 2011 | | | 2010 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST (dollars in thousands) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits and short-term investments | | | | | | |
| Investment securities (1) | \$ 18,440 | \$ 23 | .25% | \$ 55,973 | \$ 268 | % |
| FHLB stock | 133,682 | 642 | .96 | 24,236 | 458 | 3.78 |
| Mortgage-backed securities (1) | 17,775 | 445 | 5.01 | 333,924 | 5,947 | 3.56 |
| Loans receivable, net (2) | 336,035 | 5,230 | 3.11 | 1,638,013 | 44,209 | 5.40 |
| | 1,638,173 | 42,188 | 5.15 | | | |
| Total interest-earning assets | 2,144,105 | 48,528 | 4.53 | 2,052,146 | 50,882 | 4.96 |
| Non-interest-earning assets | 114,853 | | | 109,330 | | |
| Total assets | \$ 2,258,958 | | | \$ 2,161,476 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | \$ 1,256,007 | 3,169 | .50 | \$ 998,499 | 4,046 | .81 |
| Time deposits | 273,182 | 2,433 | 1.78 | 305,702 | 2,865 | 1.87 |
| Total | 1,529,189 | 5,602 | .73 | 1,304,201 | 6,911 | 1.06 |
| Borrowed funds | 374,079 | 3,944 | 2.11 | 533,795 | 5,305 | 1.99 |
| Total interest-bearing liabilities | 1,903,268 | 9,546 | 1.00 | 1,837,996 | 12,216 | 1.33 |
| Non-interest-bearing deposits | 134,968 | | | 120,131 | | |
| Non-interest-bearing liabilities | 16,433 | | | 17,694 | | |
| Total liabilities | 2,054,669 | | | 1,975,821 | | |
| Stockholders equity | 204,289 | | | 185,655 | | |
| Total liabilities and stockholders equity | \$ 2,258,958 | | | \$ 2,161,476 | | |
| Net interest income | | \$ 38,982 | | | \$ 38,666 | |
| Net interest rate spread (3) | | | 3.53% | | | 3.63% |
| Net interest margin (4) | | | 3.64% | | | 3.77% |

(1) Amounts are recorded at average amortized cost.

(2) Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.

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

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

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Comparison of Financial Condition at June 30, 2011 and December 31, 2010

Total assets at June 30, 2011 were \$2.239 billion, a decrease of \$12.3 million, or 0.5%, compared to \$2.251 billion at December 31, 2010.

Investment securities available for sale increased \$41.2 million, or 44.8%, to \$133.1 million at June 30, 2011, as compared to \$91.9 million at December 31, 2010, due to purchases of government agency securities.

Loans receivable, net decreased by \$43.0 million, or 2.6%, to a balance of \$1.618 billion at June 30, 2011, as compared to a balance of \$1.661 billion at December 31, 2010, primarily due to sales and prepayments of one-to-four family loans and limited loan origination volume.

Total deposits decreased \$24.7 million, or 1.5%, to \$1.639 billion at June 30, 2011, from \$1.664 billion at December 31, 2010. The decline was concentrated in time deposits which decreased \$22.8 million as the Bank continued to moderate its pricing for this product. Partly as a result of the decline in deposits, Federal Home Loan Bank of New York (FHLB) advances increased by \$9.0 million to \$274.0 million at June 30, 2011, as compared to \$265.0 million at December 31, 2010.

Stockholders' equity at June 30, 2011 increased by 6.0%, to \$213.4 million, as compared to \$201.3 million at December 31, 2010, primarily due to net income and a reduction in accumulated other comprehensive loss partly offset by the cash dividend on common stock.

Comparison of Operating Results for the Three and Six Months Ended June 30, 2011 and June 30, 2010

General

Net income for the three months ended June 30, 2011 increased to \$5.1 million, as compared to net income of \$5.0 million for the corresponding prior year period. On a per share basis, diluted earnings per share increased 3.7%, to \$0.28 for the three months ended June 30, 2011, as compared to \$0.27 for the corresponding prior year period. Net income for the six months ended June 30, 2011 increased to \$10.2 million, as compared to net income of \$9.4 million for the corresponding prior year period. Diluted earnings per share increased 9.8%, to \$0.56 for the six months ended June 30, 2011, as compared to \$0.51 for the corresponding prior year period.

Interest Income

Interest income for the three and six months ended June 30, 2011 was \$24.2 million and \$48.5 million, respectively, as compared to \$25.8 million and \$50.9 million, respectively, for the six months ended June 30, 2010. The yield on interest-earning assets declined to 4.53% for both the three and six months ended June 30, 2011, as compared to 4.96% for the same prior year periods. This decline was due to high loan refinance volume, which caused yields on loans and mortgage-backed securities to reset downward. Average interest-earning assets increased by \$56.0 million, or 2.7%, and \$92.0 million, or 4.5%, respectively, for the three and six months ended June 30, 2011, as compared to the same prior year periods. The increase in average interest-earning assets was primarily due to an increase in average investment securities of \$85.2 million and \$77.7 million, respectively, for the three and six months ended June 30, 2011.

Interest Expense

Interest expense for the three and six months ended June 30, 2011 was \$4.6 million and \$9.5 million, respectively, compared to \$6.1 million and \$12.2 million, respectively, for the three and six months ended June 30, 2010. The cost of interest-bearing liabilities decreased to 0.97% and 1.00%, respectively, for the three and six months ended June 30, 2011 as compared to 1.31% and 1.33%, respectively, in the same prior year periods. Average interest-bearing liabilities increased by \$31.3 million and \$65.3 million, respectively, for the three and six months ended June 30, 2011, as compared to the same prior year periods. The increase in average interest-bearing liabilities was primarily due to an increase in average interest-bearing deposits of \$187.0 million and \$225.0 million, respectively, for the three and six months ended June 30, 2011, partly offset by a decrease in average borrowed funds of \$155.7 million and \$159.7 million, respectively.

Net Interest Income

Net interest income for the three and six months ended June 30, 2011 was \$19.7 million and \$39.0 million, respectively, as compared to \$19.7 million and \$38.7 million, respectively, in the same prior year periods, reflecting higher levels of interest-earning assets offset by a lower net interest margin. The net interest margin decreased to 3.67% and 3.64%, respectively, for the

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three and six months ended June 30, 2011 from 3.78% and 3.77%, respectively, in the same prior year periods due to increased average deposits which were invested into investment securities and interest-earning deposits at a modest net interest spread.

Provision for Loan Losses

For the three and six months ended June 30, 2011, the provision for loan losses was \$2.2 million and \$3.9 million, respectively, as compared to \$2.2 million and \$4.4 million, respectively, for the corresponding prior year periods. Non-performing loans increased \$9.2 million, to \$46.7 million at June 30, 2011 from \$37.5 million at December 31, 2010. The increase is primarily due to the addition of one large loan relationship comprised of two commercial real estate loans and one commercial loan totaling \$5.7 million. The real estate collateral on this loan was recently appraised at \$8.1 million. Most of the remaining increase in non-performing loans is related to an increase in non-performing one-to-four family loans of \$4.4 million. Net charge-offs for the three and six months ended June 30, 2011 increased to \$1.2 million and \$2.1 million, respectively, as compared to \$686,000 and \$2.0 million, respectively, for the same prior year periods. Loans receivable, net decreased by \$43.0 million at June 30, 2011 as compared to December 31, 2010.

Other Income

Other income increased to \$3.9 million and \$7.4 million, respectively, for the three and six months ended June 30, 2011, as compared to \$3.6 million and \$6.6 million in the same prior year periods. Fees and service charges increased to \$2.9 million and \$5.7 million, respectively, for the three and six months ended June 30, 2011, as compared to \$2.8 million and \$5.4 million, respectively, for the corresponding prior year periods due to higher fees from investment services and merchant services. The net gain on sales of loans increased to \$609,000 and \$1.4 million, respectively, for the three and six months ended for June 30, 2011, as compared to \$502,000 and \$1.0 million, respectively, for the corresponding prior year periods due to an increase in the volume of loans sold. The net loss from other real estate operations was \$36,000 and \$402,000, respectively, for the three and six months ended June 30, 2011 as compared to a loss of \$28,000 and \$364,000, respectively, in the same prior year periods due to write-downs in the value of properties previously acquired.

Operating Expenses

Operating expenses increased by 0.9%, to \$13.4 million, and 2.1%, to \$26.5 million, respectively, for the three and six months ended June 30, 2011, as compared to \$13.3 million and \$26.0 million, respectively, for the corresponding prior year periods. The increase was due to several components. Compensation and employee benefit costs increased by \$63,000, or 0.9%, to \$7.1 million and \$575,000, or 4.2%, to \$14.2 million, respectively, for the three and six months ended June 30, 2011, as compared to the corresponding prior year periods. Occupancy expense decreased by \$293,000 for the six months ended June 30, 2011, as compared to the corresponding prior year period due to a \$184,000 benefit from the negotiated settlement of the remaining office lease obligation at Columbia Home Loans, LLC (Columbia), the Company's mortgage banking subsidiary, which was shuttered in the fourth quarter of 2007. Equipment expense increased by \$107,000, to \$644,000 and \$279,000, to \$1.3 million, respectively, for the three and six months ended June 30, 2011, as compared to the corresponding prior year periods due to technology upgrades and infrastructure improvements.

Provision for Income Taxes

The provision for income taxes was \$2.9 million and \$5.7 million, respectively, for the three and six months ended June 30, 2011, as compared to \$2.9 million and \$5.5 million, respectively, for the same prior year periods. The effective tax rate decreased to 35.9% for both the three and six months ended June 30, 2011, as compared to 36.8% and 37.1%, respectively, in the same prior year periods due to a lower effective state tax rate.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including various lines of credit.

At June 30, 2011 and December 31, 2010, the Company had no outstanding overnight borrowings from the FHLB. Periodically, the Company utilizes overnight borrowings to fund short-term liquidity needs. The Company had total FHLB borrowings of \$274.0 million at June 30, 2011, an increase from \$265.0 million at December 31, 2010.

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The Company's cash needs for the six months ended June 30, 2011 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased FHLB borrowings. The cash

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was principally utilized for loan originations, the purchase of investment and mortgage-backed securities and deposit outflow. The Company's cash needs for the six months ended June 30, 2010 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, increased deposits and increased borrowings. The cash was principally utilized for loan originations and the purchase of mortgage-backed securities.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments, primarily relating to the origination and sale of loans. At June 30, 2011, outstanding commitments to originate loans totaled \$28.6 million; outstanding unused lines of credit totaled \$209.9 million; and outstanding commitments to sell loans totaled \$22.3 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$150.3 million at June 30, 2011. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

Cash dividends on common stock declared and paid by OceanFirst Financial Corp. during the first six months of 2011 were \$4.4 million, unchanged as compared to the same prior year period. On July 21, 2011, the Board of Directors declared a quarterly cash dividend of twelve cents (\$0.12) per common share. The dividend is payable on August 12, 2011 to stockholders of record at the close of business on August 1, 2011.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the banking subsidiary and the issuance of preferred and common stock and long-term debt. For the first six months of 2011, OceanFirst Financial Corp. received a dividend payment of \$5.6 million from OceanFirst Bank. The Bank has received a notice of non-objection from the Office of Thrift Supervision (OTS) to make another \$2.8 million dividend payment to OceanFirst Financial Corp. during the third quarter of 2011 which was paid on July 19, 2011. OceanFirst Financial Corp.'s ability to continue to pay dividends will be partly dependent upon capital distributions from OceanFirst Bank, which may be adversely affected by capital constraints imposed by the applicable regulations. In addition, future dividend notices from the Bank for the dividend to be paid to the Holding Company will be submitted to the Office of the Comptroller of the Currency (OCC) the primary federal regulator for the Bank following the termination of the OTS on July 21, 2011, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Company cannot predict whether the Bank will be permitted under applicable regulations to pay a dividend to OceanFirst Financial Corp. At June 30, 2011, OceanFirst Financial Corp. held \$20.9 million in cash and \$317,000 in investment securities available for sale.

As of June 30, 2011, the Bank exceeded all regulatory capital requirements as follows (in thousands):

| | Actual | | Required | |
|---------------------------|------------|-------|-----------|-------|
| | Amount | Ratio | Amount | Ratio |
| Tangible capital | \$ 212,151 | 9.45% | \$ 33,678 | 1.50% |
| Core capital | 212,151 | 9.45 | 89,807 | 4.00 |
| Tier 1 risk-based capital | 212,151 | 14.87 | 57,068 | 4.00 |
| Total risk-based capital | 227,043 | 15.91 | 114,136 | 8.00 |

The Bank is considered a well-capitalized institution under the Prompt Corrective Action Regulations.

At June 30, 2011, the Company maintained tangible common equity of \$213.4 million, for a tangible common equity to assets ratio of 9.53%.

Off-Balance-Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. These financial instruments and commitments include unused lines of credit and commitments to extend credit. The Company also has outstanding commitments to sell loans amounting to \$22.3 million.

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The following table shows the contractual obligations of the Company by expected payment period as of June 30, 2011 (in thousands):

| Contractual Obligation | Total | Less than One year | 1-3 years | 3-5 years | More than 5 years |
|--|------------|-----------------------|------------|------------|----------------------|
| Debt Obligations | \$ 374,199 | \$ 121,699 | \$ 111,000 | \$ 119,000 | \$ 22,500 |
| Commitments to Originate Loans | 28,552 | 28,552 | | | |
| Commitments to Fund Unused Lines of Credit | 209,920 | 209,920 | | | |

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit risk is represented by the contractual amount of the instruments.

Non-Performing Assets

The following table sets forth information regarding the Company's non-performing assets consisting of non-performing loans and Real Estate Owned (REO). It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

| | June 30, 2011 | December 31, 2010 |
|--|------------------------|----------------------|
| | (dollars in thousands) | |
| Non-performing loans: | | |
| Real estate one-to-four family | \$ 31,021 | \$ 26,577 |
| Commercial real estate | 10,436 | 5,849 |
| Construction | 68 | 368 |
| Consumer | 4,769 | 4,626 |
| Commercial | 420 | 117 |
| Total non-performing loans | 46,714 | 37,537 |
| REO, net | 2,807 | 2,295 |
| Total non-performing assets | \$ 49,521 | \$ 39,832 |
| | | |
| Delinquent loans 30-89 days | \$ 14,202 | \$ 14,421 |
| | | |
| Allowance for loan losses as a percent of total loans receivable | 1.31% | 1.17% |
| Allowance for loan losses as percent of total non-performing loans | 45.93 | 52.48 |
| Non-performing loans as a percent of total loans receivable | 2.85 | 2.23 |
| Non-performing assets as a percent of total assets | 2.21 | 1.77 |

Included in the non-performing loan total at June 30, 2011 was \$6.0 million of troubled debt restructured loans, as compared to \$3.3 million of troubled debt restructured loans at December 31, 2010. The increase in non-performing loans is primarily due to the addition of one large loan relationship comprised of two commercial real estate loans and one commercial loan totaling \$5.7 million. The loans are collateralized by commercial and residential real estate, all business assets and also carry a personal guarantee. A May 2011 appraisal values the real estate collateral at \$8.1 million net of delinquent real estate taxes. Non-performing loans are concentrated in one-to-four family loans which comprise 66.4% of the total. At June 30, 2011, the average weighted loan-to-value ratio of non-performing one-to-four family loans was 69.0% using appraisal values at time of origination and 95.2% using updated appraisal values. Appraisals are obtained for all non-performing loans secured by real estate and subsequently updated annually if the loan remains delinquent for an extended period. Included in the allowance for loan losses is a specific allowance for the difference between the Company's recorded investment in the loan and the fair value of the collateral, less estimated disposal costs. At June 30, 2011, the average weighted loan-to-value ratio of the total one-to-four family loan portfolio was 58.6% using appraisal values at time of origination. Based upon sales data for the first half of 2011 from the Ocean and Monmouth Counties Multiple Listing Service, home values in the Company's primary market area have declined by approximately 20% from the peak of the market in 2006. Individual home values may move more or less than the average based upon the specific characteristics of the property. There can be no

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assurance that home values will not decline further, possibly resulting in losses to the Company. The largest non-performing one-to-four family loan is a loan for \$3.5 million which is secured by a first mortgage on a property with an appraised value of \$3.8 million. The Company's non-performing loans remain at elevated levels partly due to the extended foreclosure

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process in the State of New Jersey. This protracted foreclosure process delays the Company's ability to resolve non-performing loans through sale of the underlying collateral. A significant portion of non-performing one-to-four family loans were originated by additional Bank delivery channels which have since been shuttered. Of the non-performing one-to-four family loans, 77.1% were originated by either Columbia, which was shuttered in 2007, or the Kenilworth loan production office which was shuttered in mid-2011.

The Company also classifies loans in accordance with regulatory guidelines. At June 30, 2011, the Company had \$15.6 million designated as Special Mention, \$60.9 million classified as Substandard and \$8,700 classified as Doubtful, as compared to \$15.5 million, \$60.0 million and \$1.5 million, respectively, at December 31, 2010. The largest Special Mention loan relationship at June 30, 2011 is comprised of a commercial mortgage and a commercial loan totaling \$5.5 million to a real estate management and commercial construction company which is current as to payments, but was criticized due to increased vacancies. The loans are collateralized by commercial real estate and other business assets. The largest Substandard loan relationship is comprised of several credit facilities to a building supply company with an aggregate balance of \$8.8 million, which was current as to payments, but criticized due to declining revenue and poor operating results. The loans are collateralized by commercial real estate and other business assets. In addition to loan classifications, the Company classified investment securities with an amortized cost of \$30.0 million and a carrying value of \$24.3 million as Substandard, which represents the amount of investment securities with a credit rating below investment grade from one of the internationally recognized credit rating services. These securities are all current as to principal and interest payments.

At June 30, 2011, the Bank was holding subprime loans with a gross principal balance of \$1.6 million and a carrying value, net of write-downs and lower of cost or market adjustment, of \$1.2 million, and ALT-A loans with a gross principal balance of \$3.4 million and a carrying value, net of write-downs and lower of cost or market adjustment, of \$3.3 million. These loans were all originated by Columbia prior to its shuttering in 2007.

Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K), as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or fair value. Policies with respect to the methodologies used to determine the allowance for loan losses, the reserve for repurchased loans and the valuation of Mortgage Servicing Rights and judgments regarding securities impairment are the most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995 which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, will, may, view, opportunity, potential, or similar expressions or expressions of confidence. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, levels of unemployment in the Bank's lending area, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties are further discussed in the 2010 Form 10-K and its subsequent securities filings and should be considered in evaluating forward-looking statements and undue reliance should not be placed on statements. The Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business and Item 1A, Risk Factors of the Company's 2010 Form 10-K and Item 1A of this Form 10-Q.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's interest rate sensitivity is monitored through the use of an interest rate risk (IRR) model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at June 30, 2011, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At June 30, 2011, the Company's one-year gap was positive 2.47% as compared to positive 0.25% at December 31, 2010.

| At June 30, 2011 (dollars in thousands) | 3 Months Or Less | More than 3 Months to 1 Year | More than 1 Year to 3 Years | More than 3 Years to 5 Years | More than 5 Years | Total |
|--|---------------------|------------------------------------|-----------------------------------|------------------------------------|----------------------|-------------------|
| Interest-earning assets: (1) | | | | | | |
| Interest-earning deposits and short- | | | | | | |
| term investments | \$ 1,565 | \$ | \$ | \$ | \$ | \$ 1,565 |
| Investment securities | 55,000 | 10,749 | 69,775 | 5,000 | 1,557 | 142,081 |
| FHLB stock | | | | | 18,279 | 18,279 |
| Mortgage-backed securities | 57,634 | 57,451 | 115,039 | 75,033 | 22,682 | 327,839 |
| Loans receivable (2) | 271,491 | 435,779 | 531,920 | 206,677 | 192,983 | 1,638,850 |
| Total interest-earning assets | 385,690 | 503,979 | 716,734 | 286,710 | 235,501 | 2,128,614 |
| Interest-bearing liabilities: | | | | | | |
| Money market deposit accounts | 5,342 | 16,025 | 42,734 | 53,418 | | 117,519 |
| Savings accounts | 10,089 | 31,689 | 80,712 | 100,889 | | 223,379 |
| Interest-bearing checking accounts | 410,661 | 68,760 | 183,359 | 229,333 | | 892,113 |
| Time deposits | 47,717 | 102,544 | 55,301 | 32,025 | 24,758 | 262,345 |
| FHLB advances | 8,000 | 41,000 | 111,000 | 114,000 | | 274,000 |
| Securities sold under agreements | | | | | | |
| to repurchase | 72,699 | | | | | 72,699 |
| Other borrowings | 22,500 | | | 5,000 | | 27,500 |
| Total interest-bearing liabilities | 577,008 | 260,018 | 473,106 | 534,665 | 24,758 | 1,869,555 |
| Interest sensitivity gap (3) | \$(191,318) | \$ 243,961 | \$ 243,628 | \$(247,955) | \$ 210,743 | \$ 259,059 |
| Cumulative interest sensitivity gap | \$(191,318) | \$ 52,643 | \$ 296,271 | \$ 48,316 | \$ 259,059 | \$ 259,059 |
| Cumulative interest sensitivity gap as a percent of total interest-earning assets | (8.99)% | 2.47% | 13.92% | 2.27% | 12.17% | 12.17% |

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.
- (2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.
- (3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

Additionally, the table below sets forth the Company's exposure to interest rate risk as measured by the change in net portfolio value (NPV) and net interest income under varying rate shocks as of June 30, 2011 and December 31, 2010. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company's interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained

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in the 2010 Form 10-K.

| Change in Interest Rates in Basis Points (Rate Shock) (dollars in thousands) | June 30, 2011 | | | | | | December 31, 2010 | | | | | |
|--|---------------------|----------|--------------|---------------------|----------|--|---------------------|----------|--------------|---------------------|----------|--|
| | Net Portfolio Value | | | Net Interest Income | | | Net Portfolio Value | | | Net Interest Income | | |
| | Amount | % Change | NPV Ratio | Amount | % Change | | Amount | % Change | NPV Ratio | Amount | % Change | |
| 200 | \$ 210,689 | (13.2)% | 9.8% | \$ 76,260 | (3.0)% | | \$ 181,252 | (17.4)% | 8.4% | \$ 74,887 | (5.8)% | |
| 100 | 231,418 | (4.6) | 10.5 | 77,771 | (1.1) | | 204,940 | (6.6) | 9.3 | 77,519 | (2.5) | |
| Static | 242,627 | | 10.7 | 78,646 | | | 219,409 | | 9.7 | 79,495 | | |
| (100) | 246,134 | 1.4 | 10.7 | 74,400 | (5.4) | | 226,798 | 3.4 | 9.9 | 76,397 | (3.9) | |
| (200) | 264,654 | 9.1 | 11.5 | 70,474 | (10.4) | | 244,147 | 11.3 | 10.6 | 72,483 | (8.8) | |

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the

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Exchange Act with the Securities and Exchange Commission (SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company s internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Financial Condition**

(dollars in thousands, except per share amounts)

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 28,934 | \$ 31,455 |
| Investment securities available for sale | 133,115 | 91,918 |
| Federal Home Loan Bank of New York stock, at cost | 18,279 | 16,928 |
| Mortgage-backed securities available for sale | 336,731 | 341,175 |
| Loans receivable, net | 1,617,812 | 1,660,788 |
| Mortgage loans held for sale | 4,313 | 6,674 |
| Interest and dividends receivable | 6,669 | 6,446 |
| Real estate owned, net | 2,807 | 2,295 |
| Premises and equipment, net | 22,447 | 22,488 |
| Servicing asset | 5,194 | 5,653 |
| Bank Owned Life Insurance | 41,346 | 40,815 |
| Other assets | 21,364 | 24,695 |
| Total assets | \$ 2,239,011 | \$ 2,251,330 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | \$ 1,639,230 | \$ 1,663,968 |
| Securities sold under agreements to repurchase | | |
| with retail customers | 72,699 | 67,864 |
| Federal Home Loan Bank advances | 274,000 | 265,000 |
| Other borrowings | 27,500 | 27,500 |
| Advances by borrowers for taxes and insurance | 7,932 | 6,947 |
| Other liabilities | 4,283 | 18,800 |
| Total liabilities | 2,025,644 | 2,050,079 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, no shares issued at June 30, 2011, and December 31, 2010 | | |
| Common stock, \$.01 par value, 55,000,000 shares authorized, 33,566,772 shares issued 18,846,122 and 18,822,556 shares outstanding at June 30, 2011 and December 31, 2010, respectively | 336 | 336 |
| Additional paid-in capital | 261,060 | 260,739 |
| Retained earnings | 180,530 | 174,677 |
| Accumulated other comprehensive loss | (44) | (5,560) |
| Less: Unallocated common stock held by Employee Stock Ownership Plan | (4,339) | (4,484) |
| Treasury stock, 14,720,650 and 14,744,216 shares at June 30, 2011 and December 31, 2010, respectively | (224,176) | (224,457) |
| Common stock acquired by Deferred Compensation Plan | (914) | (946) |
| Deferred Compensation Plan Liability | 914 | 946 |
| Total stockholders' equity | 213,367 | 201,251 |
| Total liabilities and stockholders' equity | \$ 2,239,011 | \$ 2,251,330 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|--|---------------|--------------------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | (Unaudited) | |
| Interest income: | | | | |
| Loans | \$ 21,024 | \$ 22,226 | \$ 42,188 | \$ 44,209 |
| Mortgage-backed securities | 2,667 | 3,185 | 5,230 | 5,947 |
| Investment securities and other | 546 | 396 | 1,110 | 726 |
| Total interest income | 24,237 | 25,807 | 48,528 | 50,882 |
| Interest expense: | | | | |
| Deposits | 2,693 | 3,480 | 5,602 | 6,911 |
| Borrowed funds | 1,899 | 2,630 | 3,944 | 5,305 |
| Total interest expense | 4,592 | 6,110 | 9,546 | 12,216 |
| Net interest income | 19,645 | 19,697 | 38,982 | 38,666 |
| Provision for loan losses | 2,200 | 2,200 | 3,900 | 4,400 |
| Net interest income after provision for loan losses | 17,445 | 17,497 | 35,082 | 34,266 |
| Other income: | | | | |
| Loan servicing income | 100 | 113 | 196 | 159 |
| Fees and service charges | 2,938 | 2,801 | 5,660 | 5,358 |
| Net gain on sales of loans available for sale | 609 | 502 | 1,368 | 1,005 |
| Net loss from other real estate operations | (36) | (28) | (402) | (364) |
| Income from Bank Owned Life Insurance | 284 | 208 | 531 | 404 |
| Other | 2 | 2 | 3 | 4 |
| Total other income | 3,897 | 3,598 | 7,356 | 6,566 |
| Operating expenses: | | | | |
| Compensation and employee benefits | 7,114 | 7,051 | 14,156 | 13,581 |
| Occupancy | 1,305 | 1,328 | 2,499 | 2,792 |
| Equipment | 644 | 537 | 1,291 | 1,012 |
| Marketing | 420 | 523 | 756 | 827 |
| Federal deposit insurance | 723 | 686 | 1,464 | 1,320 |
| Data processing | 904 | 833 | 1,786 | 1,662 |
| Legal | 171 | 267 | 427 | 563 |
| Check card processing | 284 | 309 | 604 | 626 |
| Accounting and audit | 173 | 179 | 313 | 322 |
| Other operating expense | 1,647 | 1,547 | 3,216 | 3,256 |
| Total operating expenses | 13,385 | 13,260 | 26,512 | 25,961 |
| Income before provision for income taxes | 7,957 | 7,835 | 15,926 | 14,871 |

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| | | | | |
|------------------------------------|----------|----------|-----------|----------|
| Provision for income taxes | 2,854 | 2,884 | 5,717 | 5,515 |
| Net income | \$ 5,103 | \$ 4,951 | \$ 10,209 | \$ 9,356 |
| Basic earnings per share | \$ 0.28 | \$ 0.27 | \$ 0.56 | \$ 0.52 |
| Diluted earnings per share | \$ 0.28 | \$ 0.27 | \$ 0.56 | \$ 0.51 |
| Average basic shares outstanding | 18,181 | 18,135 | 18,172 | 18,133 |
| Average diluted shares outstanding | 18,231 | 18,183 | 18,221 | 18,182 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of****Changes in Stockholders Equity (Unaudited)**

(in thousands, except per share amounts)

| | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Employee Stock Ownership Plan | Treasury Stock | Common Stock Acquired by Deferred Compensation Plan | Deferred Compensation Plan Liability | Total |
|---|--------------------|-----------------|----------------------------------|----------------------|---|--|-------------------|---|---|------------|
| Balance at December 31, 2009 | \$ | \$ 336 | \$ 260,130 | \$ 163,063 | \$ (10,753) | \$ (4,776) | \$ (224,464) | \$ (986) | \$ 986 | \$ 183,536 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | 9,356 | | | | | | 9,356 |
| Other comprehensive income: | | | | | | | | | | |
| Unrealized gain on securities (net of tax expense \$4,144) | | | | | 6,156 | | | | | 6,156 |
| Total comprehensive income | | | | | | | | | | 15,512 |
| Expenses of common stock offering | | | | | | | | | | |
| | | | (109) | | | | | | | (109) |
| Tax expense of stock plans | | | (23) | | | | | | | (23) |
| Stock awards | | | 515 | | | | | | | 515 |
| Redemption of warrants | | | (431) | | | | | | | (431) |
| Allocation of ESOP stock | | | 56 | | | 146 | | | | 202 |
| Cash dividend - \$0.24 per share | | | | (4,381) | | | | | | (4,381) |
| Exercise of stock options | | | | | | | 7 | | | 7 |
| Sale of stock for the deferred compensation plan | | | | | | | | 39 | (39) | |
| Balance at June 30, 2010 | \$ | \$ 336 | \$ 260,138 | \$ 168,038 | \$ (4,597) | \$ (4,630) | \$ (224,457) | \$ (947) | \$ 947 | \$ 194,828 |
| Balance at December 31, 2010 | \$ | \$ 336 | \$ 260,739 | \$ 174,677 | \$ (5,560) | \$ (4,484) | \$ (224,457) | \$ (946) | \$ 946 | \$ 201,251 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | 10,209 | | | | | | 10,209 |
| Other comprehensive income: | | | | | | | | | | |
| Unrealized gain on securities (net of tax expense \$3,809) | | | | | 5,516 | | | | | 5,516 |
| Total comprehensive income | | | | | | | | | | 15,725 |
| Tax expense of stock plans | | | | | | | | | | |
| | | | (7) | | | | | | | (7) |
| Stock awards | | | 522 | | | | | | | 522 |
| Treasury stock allocated to restricted stock plan | | | (280) | 37 | | | 243 | | | |
| Allocation of ESOP stock | | | 86 | | | 145 | | | | 231 |
| Cash dividend \$0.24 per share | | | | (4,393) | | | | | | (4,393) |
| Exercise of stock options | | | | | | | 38 | | | 38 |
| Sale of stock for the deferred | | | | | | | | 32 | (32) | |

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compensation plan

| | | | | | | | | | | | | |
|--------------------------|----|--------|------------|------------|----|------|------------|--------------|----|-------|--------|------------|
| Balance at June 30, 2011 | \$ | \$ 336 | \$ 261,060 | \$ 180,530 | \$ | (44) | \$ (4,339) | \$ (224,176) | \$ | (914) | \$ 914 | \$ 213,367 |
|--------------------------|----|--------|------------|------------|----|------|------------|--------------|----|-------|--------|------------|

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Cash Flows**

(dollars in thousands)

| | For the six months ended June 30, 2011 2010 (Unaudited) | |
|--|---|------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 10,209 | \$ 9,356 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of premises and equipment | 1,216 | 1,065 |
| Allocation of ESOP stock | 231 | 202 |
| Stock awards | 522 | 515 |
| Amortization of servicing asset | 956 | 1,006 |
| Net premium amortization in excess of discount accretion on securities | 1,050 | 672 |
| Net amortization of deferred costs and discounts on loans | 422 | 432 |
| Provision for loan losses | 3,900 | 4,400 |
| Net loss (gain) on sale of real estate owned | 140 | (29) |
| Net gain on sales of loans | (1,368) | (1,005) |
| Proceeds from sales of mortgage loans held for sale | 67,410 | 50,872 |
| Mortgage loans originated for sale | (64,177) | (47,441) |
| Increase in value of Bank Owned Life Insurance | (531) | (404) |
| Increase in interest and dividends receivable | (223) | (890) |
| Increase in other assets | (478) | (173) |
| Decrease in other liabilities | (14,517) | (2,401) |
| Total adjustments | (5,447) | 6,821 |
| Net cash provided by operating activities | 4,762 | 16,177 |
| Cash flows from investing activities: | | |
| Net decrease (increase) in loans receivable | 36,592 | (43,689) |
| Proceeds from maturity or sale of investment securities available for sale | | 303 |
| Purchase of investment securities available for sale | (35,164) | (323) |
| Purchase of mortgage-backed securities available for sale | (29,808) | (203,481) |
| Principal repayments on mortgage-backed securities available for sale | 36,494 | 24,403 |
| Increase in Federal Home Loan Bank of New York stock | (1,351) | (1,970) |
| Proceeds from sales of real estate owned | 1,409 | 704 |
| Purchases of premises and equipment | (1,175) | (698) |
| Net cash provided by (used in) investing activities | 6,997 | (224,751) |

Continued

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Cash Flows (Continued)**

(dollars in thousands)

| | For the six months ended June 30, | |
|---|--------------------------------------|---------------|
| | 2011 | 2010 |
| | (Unaudited) | |
| Cash flows from financing activities: | | |
| (Decrease) increase in deposits | (24,738) | 175,773 |
| Increase (decrease) in short-term borrowings | 4,835 | (29,140) |
| Proceeds from Federal Home Loan Bank advances | 55,000 | 119,000 |
| Repayments of Federal Home Loan Bank advances | (46,000) | (45,000) |
| Increase in advances by borrowers for taxes and insurance | 985 | 814 |
| Exercise of stock options | 38 | 7 |
| Dividends paid - common stock | (4,393) | (4,381) |
| Redemption of warrants | | (431) |
| Tax expense of stock plans | (7) | (23) |
| Expenses of common stock offering | | (109) |
| Net cash (used in) provided by financing activities | (14,280) | 216,510 |
| Net (decrease) increase in cash and due from banks | (2,521) | 7,936 |
| Cash and due from banks at beginning of period | 31,455 | 23,016 |
| Cash and due from banks at end of period | \$ 28,934 | \$ 30,952 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 9,756 | \$ 12,206 |
| Income taxes | 12,662 | 5,805 |
| Non-cash activities: | | |
| Transfer of loans receivable to real estate owned | 2,062 | 669 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****Notes to Unaudited Consolidated Financial Statements****Note 1. Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of OceanFirst Financial Corp. (the Company) and its wholly-owned subsidiary, OceanFirst Bank (the Bank), and its wholly-owned subsidiaries, Columbia Home Loans, LLC (Columbia), OceanFirst REIT Holdings, Inc., OceanFirst Services, LLC and 975 Holdings, LLC. The operations of Columbia were shuttered in late 2007.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results of operations that may be expected for all of 2011. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC).

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the year ended December 31, 2010.

Note 2. Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010 (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average shares issued net of Treasury shares | 18,845 | 18,822 | 18,837 | 18,822 |
| Less: Unallocated ESOP shares | (519) | (553) | (523) | (558) |
| Unallocated incentive award shares and shares held by deferred compensation plan | (145) | (134) | (142) | (131) |
| Average basic shares outstanding | 18,181 | 18,135 | 18,172 | 18,133 |
| Add: Effect of dilutive securities: | | | | |
| Stock options | | | | |
| Incentive awards and shares held by deferred compensation plan | 50 | 48 | 49 | 49 |
| Average diluted shares outstanding | 18,231 | 18,183 | 18,221 | 18,182 |

For the three months ended June 30, 2011 and 2010, antidilutive stock options of 2,089,000 and 1,904,000, respectively, were excluded from earnings per share calculations. For the six months ended June 30, 2011 and 2010 antidilutive stock options of 2,031,000 and 1,840,000, respectively, were excluded from earnings per share calculations.

Table of Contents**Note 3. Investment Securities Available for Sale**

The amortized cost and estimated market value of investment securities available for sale at June 30, 2011 and December 31, 2010 are as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| June 30, 2011 | | | | |
| U.S. agency obligations | \$ 71,244 | \$ 583 | \$ | \$ 71,827 |
| State and municipal obligations | 15,467 | 21 | (11) | 15,477 |
| Corporate debt securities | 55,000 | | (9,496) | 45,504 |
| Equity investments | 370 | | (63) | 307 |
| | \$ 142,081 | \$ 604 | \$ (9,570) | \$ 133,115 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| December 31, 2010 | | | | |
| U.S. agency obligations | \$ 41,146 | \$ 41 | \$ (55) | \$ 41,132 |
| State and municipal obligations | 10,690 | | (75) | 10,615 |
| Corporate debt securities | 55,000 | | (15,144) | 39,856 |
| Equity investments | 370 | | (55) | 315 |
| | \$ 107,206 | \$ 41 | \$ (15,329) | \$ 91,918 |

There were no realized gains or losses on the sale of investment securities available for sale for the three and six months ended June 30, 2011 or June 30, 2010.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at June 30, 2011 by contractual maturity, are shown below (in thousands). Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. At June 30, 2011, investment securities available for sale with an amortized cost and estimated market value of \$55.0 million and \$45.5 million, respectively, were callable prior to the maturity date.

| | Amortized Cost | Estimated Market Value |
|--|-------------------|------------------------------|
| June 30, 2011 | | |
| Less than one year | \$ 10,749 | \$ 10,755 |
| Due after one year through five years | 75,962 | 76,549 |
| Due after five years through ten years | | |
| Due after ten years | 55,000 | 45,504 |
| | \$ 141,711 | \$ 132,808 |

The estimated market value and unrealized loss for investment securities available for sale at June 30, 2011 and December 31, 2010 segregated by the duration of the unrealized loss are as follows (in thousands):

| Less than 12 months | 12 months or longer | Total |
|---------------------|---------------------|-------|
|---------------------|---------------------|-------|

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| June 30, 2011 | Estimated | | Estimated | | Estimated | |
|---------------------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|
| | Market Value | Unrealized Losses | Market Value | Unrealized Losses | Market Value | Unrealized Losses |
| State and municipal obligations | \$ 2,086 | \$ (11) | \$ | \$ | \$ 2,086 | \$ (11) |
| Corporate debt securities | | | 45,504 | (9,496) | 45,504 | (9,496) |
| Equity investments | | | 307 | (63) | 307 | (63) |
| | \$ 2,086 | \$ (11) | \$ 45,811 | \$ (9,559) | \$ 47,897 | \$ (9,570) |

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| | Less than 12 months | | 12 months or longer | | Total | |
|---------------------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses |
| December 31, 2010 | | | | | | |
| U.S. agency obligations | \$ 20,742 | \$ (55) | \$ | \$ | \$ 20,742 | \$ (55) |
| State and municipal obligations | 9,738 | (75) | | | 9,738 | (75) |
| Corporate debt securities | | | 39,856 | (15,144) | 39,856 | (15,144) |
| Equity investments | 104 | (16) | 211 | (39) | 315 | (55) |
| | \$ 30,584 | \$ (146) | \$ 40,067 | \$ (15,183) | \$ 70,651 | \$ (15,329) |

At June 30, 2011, the amortized cost, estimated market value and credit rating of the individual corporate debt securities in an unrealized loss position for greater than one year are as follows (in thousands):

| Security Description | Amortized Cost | Estimated | Credit Rating Moody s/S&P |
|----------------------|----------------|--------------|------------------------------|
| | | Market Value | |
| BankAmerica Capital | \$ 15,000 | \$ 12,155 | Baa3/BB+ |
| Chase Capital | 10,000 | 8,224 | A2/BBB+ |
| Wells Fargo Capital | 5,000 | 4,304 | A3/A- |
| Huntington Capital | 5,000 | 4,034 | Ba1/BB- |
| Keycorp Capital | 5,000 | 4,208 | Baa3/BB |
| PNC Capital | 5,000 | 4,382 | Baa2/BBB |
| State Street Capital | 5,000 | 4,316 | A3/BBB+ |
| SunTrust Capital | 5,000 | 3,881 | Baa3/BB |
| | \$ 55,000 | \$ 45,504 | |

At June 30, 2011, the market value of each corporate debt security was below cost. However, the estimated market value of the corporate debt securities portfolio increased over prior periods. The corporate debt securities are issued by other financial institutions with credit ratings ranging from a high of A2 to a low of BB- as rated by one of the internationally recognized credit rating services. These floating-rate securities were purchased during the period May 1998 to September 1998 and have paid coupon interest continuously since issuance. Floating-rate debt securities such as these pay a fixed interest rate spread over the London Interbank Offered Rate (LIBOR). Following the purchase of these securities, the required spread increased for these types of securities causing a decline in the market price. The Company concluded that unrealized losses on available for sale securities were only temporarily impaired at June 30, 2011. In concluding that the impairments were only temporary, the Company considered several factors in its analysis. The Company noted that each issuer made all the contractually due payments when required. There were no defaults on principal or interest payments and no interest payments were deferred. All of the financial institutions were also considered well-capitalized. Based on management's analysis of each individual security, the issuers appear to have the ability to meet debt service requirements for the foreseeable future. Furthermore, although these investment securities are available for sale, the Company does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities. The Company has held the securities continuously since 1998 and expects to receive its full principal at maturity in 2028 or prior if called by the issuer. The Company has historically not actively sold investment securities and does not utilize the securities portfolio as a source of liquidity. The Company's long range liquidity plans indicate adequate sources of liquidity outside the securities portfolio.

Capital markets in general and the market for these corporate securities in particular have been disrupted since the second half of 2007. In its analysis, the Company considered that the severity and duration of unrecognized losses was at least partly due to the illiquidity caused by market disruptions. Since that time, markets have stabilized partly due to steps taken by the U.S. Treasury, the Federal Reserve Board, the Federal Deposit Insurance Corporation and foreign central banks to restore liquidity and confidence in the capital markets. Each of these issuers has been able to raise capital in recent years and the fair values of these securities have increased.

Due to the reasons noted above, especially the continuing restoration of the capital markets, the improved valuation of the corporate securities portfolio, the capital position of the issuers, the uninterrupted payment of all contractually due interest, management has determined that only a temporary impairment existed at June 30, 2011.

Table of Contents**Note 4. Mortgage-Backed Securities Available for Sale**

The amortized cost and estimated market value of mortgage-backed securities available for sale at June 30, 2011 and December 31, 2010 are as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---------------|----------------|------------------------|-------------------------|------------------------|
| June 30, 2011 | | | | |
| FHLMC | \$ 25,847 | \$ 610 | \$ (15) | \$ 26,442 |
| FNMA | 300,989 | 8,125 | (2) | 309,112 |
| GNMA | 1,003 | 174 | | 1,177 |
| | \$ 327,839 | \$ 8,909 | \$ (17) | \$ 336,731 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|-------------------|----------------|------------------------|-------------------------|------------------------|
| December 31, 2010 | | | | |
| FHLMC | \$ 19,225 | \$ 386 | \$ (13) | \$ 19,598 |
| FNMA | 315,024 | 5,344 | | 320,368 |
| GNMA | 1,037 | 172 | | 1,209 |
| | \$ 335,286 | \$ 5,902 | \$ (13) | \$ 341,175 |

There were no gains or losses realized on the sale of mortgage-backed securities available for sale for the three and six months ended June 30, 2011 and 2010.

The contractual maturities of mortgage-backed securities available for sale vary; however, the effective lives are expected to be shorter than the contractual maturity date due to principal prepayments.

The estimated market value and unrealized loss for mortgage-backed securities available for sale at June 30, 2011 and December 31, 2010, segregated by the duration of the unrealized loss are as follows (in thousands).

| | Less than 12 months | | 12 months or longer | | Total | |
|---------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses |
| June 30, 2011 | | | | | | |
| FHLMC | \$ 5,362 | \$ (15) | \$ | \$ | \$ 5,362 | \$ (15) |
| FNMA | 179 | (2) | | | 179 | (2) |
| | \$ 5,541 | \$ (17) | \$ | \$ | \$ 5,541 | \$ (17) |

| | Less than 12 months | | 12 months or longer | | Total | |
|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses |
| December 31, 2010 | | | | | | |
| FHLMC | \$ 4,982 | \$ (13) | \$ | \$ | \$ 4,982 | \$ (13) |

The mortgage-backed securities are issued and guaranteed by either FHLMC or FNMA, corporations which are chartered by the United States Government and whose debt obligations are typically rated AAA by one of the internationally-recognized credit rating services. On July 13, 2011, Moody's Investors Service (Moody's) placed the Aaa ratings of FHLMC and FNMA on review for possible downgrade in conjunction with its ratings review of the government of the United States. Standard & Poor's (S&P's) took similar action on July 14, 2011. On August 2, 2011, Moody's confirmed the Aaa rating of the United States with a negative outlook. Moody's also confirmed the Aaa ratings of FHLMC and FNMA. S&P's lowered the credit rating of the United States to AA+ on August 5, 2011 and lowered the ratings of FHLMC and FNMA to AA+ on August 8, 2011. FHLMC and FNMA have been under the conservatorship of the Federal Housing Financial Agency since September 8, 2008. The conservatorships have no specified termination date. Also, FHLMC and FNMA have entered into Stock Purchase Agreements, which following the issuance of Senior Preferred Stock and Warrants to the United States Treasury, provide FHLMC and FNMA funding commitments from the United States Treasury. The Company considers the unrealized losses to be the result of changes in interest rates which over time can have both a positive and negative impact on the estimated market value of the mortgage-backed securities. Although these mortgage-backed securities are available for sale, the Company does not intend to sell these securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost. As a result, the Company concluded that unrealized losses on these available for sale securities were only temporarily impaired at June 30, 2011.

Table of Contents**Note 5. Loans Receivable, Net**

Loans receivable, net at June 30, 2011 and December 31, 2010 consisted of the following (in thousands):

| | June 30, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| Real estate: | | |
| One-to-four family | \$ 917,845 | \$ 955,063 |
| Commercial real estate, multi family and land | 461,951 | 435,127 |
| Construction | 9,037 | 13,748 |
| Consumer | 198,943 | 205,725 |
| Commercial | 52,913 | 76,692 |
| | | |
| Total loans | 1,640,689 | 1,686,355 |
| Loans in process | (1,839) | (4,055) |
| Deferred origination costs, net | 4,729 | 4,862 |
| Allowance for loan losses | (21,454) | (19,700) |
| | | |
| Total loans, net | 1,622,125 | 1,667,462 |
| Less: Mortgage loans held for sale | 4,313 | 6,674 |
| | | |
| Loans receivable, net | \$ 1,617,812 | \$ 1,660,788 |

An analysis of the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 is as follows (in thousands):

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of period | \$ 20,430 | \$ 15,632 | \$ 19,700 | \$ 14,723 |
| Provision charged to operations | 2,200 | 2,200 | 3,900 | 4,400 |
| Charge-offs | (1,186) | (708) | (2,162) | (2,089) |
| Recoveries | 10 | 22 | 16 | 112 |
| | | | | |
| Balance at end of period | \$ 21,454 | \$ 17,146 | \$ 21,454 | \$ 17,146 |

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The following table presents an analysis of the allowance for loan losses for the three and six months ended June 30, 2011 and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011 and December 31, 2010 (in thousands):

| | Residential Real Estate | Commercial Real Estate | Consumer | Commercial | Unallocated | Total |
|---|----------------------------|---------------------------|-------------------|------------------|-----------------|---------------------|
| For the three months ended June 30, 2011 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Balance at beginning of period | \$ 5,854 | \$ 7,482 | \$ 3,389 | \$ 1,099 | \$ 2,606 | \$ 20,430 |
| Provision (benefit) charged to operations | 787 | 726 | 916 | (157) | (72) | 2,200 |
| Charge-offs | (179) | (979) | (28) | | | (1,186) |
| Recoveries | 7 | | | 3 | | 10 |
| Balance at end of period | \$ 6,469 | \$ 7,229 | \$ 4,277 | \$ 945 | \$ 2,534 | \$ 21,454 |
| For the six months ended June 30, 2011 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Balance at beginning of period | \$ 5,977 | \$ 6,837 | \$ 3,264 | \$ 962 | \$ 2,660 | \$ 19,700 |
| Provision (benefit) charged to operations | 936 | 1,909 | 1,062 | 119 | (126) | 3,900 |
| Charge-offs | (455) | (1,517) | (50) | (140) | | (2,162) |
| Recoveries | 11 | | 1 | 4 | | 16 |
| Balance at end of period | \$ 6,469 | \$ 7,229 | \$ 4,277 | \$ 945 | \$ 2,534 | \$ 21,454 |
| Ending allowance balance attributed to loans: | | | | | | |
| Individually evaluated for impairment | \$ | \$ 925 | \$ | \$ | \$ | \$ 925 |
| Collectively evaluated for impairment | 6,469 | 6,304 | 4,277 | 945 | 2,534 | 20,529 |
| Total ending allowance balance | \$ 6,469 | \$ 7,229 | \$ 4,277 | \$ 945 | \$ 2,534 | \$ 21,454 |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ | \$ 10,152 | \$ | \$ 302 | \$ | \$ 10,454 |
| Loans collectively evaluated for impairment | 922,569 | 451,799 | 198,943 | 52,611 | | 1,625,922 |
| Total ending loan balance | \$ 922,569 | \$ 461,951 | \$ 198,943 | \$ 52,913 | \$ | \$ 1,636,376 |
| December 31, 2010 | | | | | | |
| Ending allowance balance attributed to loans: | | | | | | |
| Individually evaluated for impairment | \$ | \$ 1,988 | \$ | \$ | \$ | \$ 1,988 |
| Collectively evaluated for impairment | 5,977 | 4,849 | 3,264 | 962 | 2,660 | 17,712 |
| Total ending allowance balance | \$ 5,977 | \$ 6,837 | \$ 3,264 | \$ 962 | \$ 2,660 | \$ 19,700 |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ | \$ 4,673 | \$ | \$ | \$ | \$ 4,673 |
| Loans collectively evaluated for impairment | 962,137 | 430,454 | 205,725 | 76,692 | | 1,675,008 |
| Total ending loan balance | \$ 962,137 | \$ 435,127 | \$ 205,725 | \$ 76,692 | \$ | \$ 1,679,681 |

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A summary of impaired loans at June 30, 2011 and December 31, 2010 is as follows (in thousands):

| | June 30, 2011 | December 31, 2010 |
|--|------------------|----------------------|
| Impaired loans with no allocated allowance for loan losses | \$ 4,004 | \$ |
| Impaired loans with allocated allowance for loan losses | 6,450 | 4,673 |
| | \$ 10,454 | \$ 4,673 |
| Amount of the allowance for loan losses allocated | \$ 925 | \$ 1,988 |

The summary of loans individually evaluated for impairment by class of loans for the three and six months ended June 30, 2011 and as of June 30, 2011 and December 31, 2010 follows (in thousands):

| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment | Interest Income Recognized |
|---|--------------------------------|------------------------|--|-----------------------------------|----------------------------------|
| Three months ended June 30, 2011 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 3,702 | \$ 3,702 | \$ | \$ 2,368 | \$ |
| Construction and land | | | | | |
| Commercial | 302 | 302 | | 101 | |
| | \$ 4,004 | \$ 4,004 | \$ | \$ 2,469 | \$ |
| With an allowance recorded: | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 6,450 | \$ 6,450 | \$ 925 | \$ 3,336 | \$ |
| Construction and land | | | | 856 | |
| Commercial | | | | | |
| | \$ 6,450 | \$ 6,450 | \$ 925 | \$ 4,192 | \$ |
| Six months ended June 30, 2011 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 3,702 | \$ 3,702 | \$ | \$ 1,184 | \$ |
| Construction and land | | | | | |
| Commercial | 302 | 302 | | 50 | |
| | \$ 4,004 | \$ 4,004 | \$ | \$ 1,234 | \$ |
| With an allowance recorded: | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 6,450 | \$ 6,450 | \$ 925 | \$ 2,493 | \$ |
| Construction and land | | | | 1,712 | |
| Commercial | | | | | |
| | \$ 6,450 | \$ 6,450 | \$ 925 | \$ 4,205 | \$ |

December 31, 2010

With no related allowance recorded:

Commercial real estate:

| | | | |
|------------|----|----|----|
| Commercial | \$ | \$ | \$ |
|------------|----|----|----|

| | | | |
|-----------------------|--|--|--|
| Construction and land | | | |
|-----------------------|--|--|--|

| | | | |
|------------|--|--|--|
| Commercial | | | |
|------------|--|--|--|

| | | | |
|--|----|----|----|
| | \$ | \$ | \$ |
|--|----|----|----|

With an allowance recorded:

Commercial real estate:

| | | | |
|------------|----------|----------|--------|
| Commercial | \$ 2,104 | \$ 2,104 | \$ 988 |
|------------|----------|----------|--------|

| | | | |
|-----------------------|-------|-------|-------|
| Construction and land | 2,569 | 2,569 | 1,000 |
|-----------------------|-------|-------|-------|

| | | | |
|------------|--|--|--|
| Commercial | | | |
|------------|--|--|--|

| | | | |
|--|----------|----------|----------|
| | \$ 4,673 | \$ 4,673 | \$ 1,988 |
|--|----------|----------|----------|

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The following table presents the recorded investment in non-accrual loans by class of loans as of June 30, 2011 and December 31, 2010 (in thousands):

| | Recorded Investment in Non-accrual Loans | |
|--------------------------|--|----------------------|
| | June 30, 2011 | December 31, 2010 |
| Residential real estate: | | |
| Originated by Bank | \$ 26,657 | \$ 22,707 |
| Originated by Columbia | 4,364 | 3,870 |
| Residential construction | 68 | 368 |
| Commercial real estate: | | |
| Commercial | 10,436 | 3,280 |
| Construction and land | | 2,569 |
| Consumer | 4,769 | 4,626 |
| Commercial | 420 | 117 |
| | \$ 46,714 | \$ 37,537 |

As used in these footnotes, the residential real estate originated by the Bank includes purchased loans which were originated under the Bank's underwriting guidelines.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 and December 31, 2010 by class of loans (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|--------------------------|---------------------------|------------------------------|--|-------------------|-----------------------|--------------|
| June 30, 2011 | | | | | | |
| Residential real estate: | | | | | | |
| Originated by Bank | \$ 11,057 | \$ 2,150 | \$ 25,223 | \$ 38,430 | \$ 869,045 | \$ 907,475 |
| Originated by Columbia | 343 | 78 | 4,052 | 4,473 | 1,584 | 6,057 |
| Residential construction | | | 68 | 68 | 8,969 | 9,037 |
| Commercial real estate: | | | | | | |
| Commercial | 1,395 | | 10,436 | 11,831 | 434,669 | 446,500 |
| Construction and land | | | | | 15,451 | 15,451 |
| Consumer | 963 | 458 | 4,273 | 5,694 | 193,249 | 198,943 |
| Commercial | | | 420 | 420 | 52,493 | 52,913 |
| | \$ 13,758 | \$ 2,686 | \$ 44,472 | \$ 60,916 | \$ 1,575,460 | \$ 1,636,376 |

December 31, 2010

| | | | | | | |
|--------------------------|----------|----------|-----------|-----------|------------|------------|
| Residential real estate: | | | | | | |
| Originated by Bank | \$ 9,232 | \$ 1,958 | \$ 20,971 | \$ 32,161 | \$ 909,436 | \$ 941,597 |
| Originated by Columbia | 953 | 1,532 | 3,240 | 5,725 | 1,067 | 6,792 |
| Residential construction | | | 368 | 368 | 13,380 | 13,748 |
| Commercial real estate: | | | | | | |
| Commercial | 870 | | 2,611 | 3,481 | 406,549 | 410,030 |
| Construction and land | | | 2,569 | 2,569 | 22,528 | 25,097 |
| Consumer | 2,036 | 241 | 4,093 | 6,370 | 199,355 | 205,725 |
| Commercial | | | 117 | 117 | 76,575 | 76,692 |

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\$ 13,091 \$ 3,731 \$ 33,969 \$ 50,791 \$ 1,628,890 \$ 1,679,681

The Company categorizes all commercial and commercial real estate 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 and current economic trends, among other factors. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

Substandard. Loans classified as Substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as Doubtful have all the weaknesses inherent in those classified as substandard, with the

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added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass related loans. Loans not rated are included in groups of homogeneous loans. As of June 30, 2011 and December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

| | Pass | Special Mention | Substandard | Doubtful | Total |
|--------------------------|------------|--------------------|-------------|----------|------------|
| June 30, 2011 | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 412,728 | \$ 8,926 | \$ 24,846 | \$ | \$ 446,500 |
| Construction and land | 15,451 | | | | 15,451 |
| Commercial | 50,091 | 2,497 | 325 | | 52,913 |
| | \$ 478,270 | \$ 11,423 | \$ 25,171 | \$ | \$ 514,864 |
| December 31, 2010 | | | | | |
| Commercial real estate: | | | | | |
| Commercial | \$ 376,902 | \$ 10,856 | \$ 22,272 | \$ | \$ 410,030 |
| Construction and land | 22,528 | | 1,100 | 1,469 | 25,097 |
| Commercial | 71,797 | 1,974 | 2,921 | | 76,692 |
| | \$ 471,227 | \$ 12,830 | \$ 26,293 | \$ 1,469 | \$ 511,819 |

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2011 and December 31, 2010 (in thousands):

| | Residential Real Estate | | | |
|--------------------------|-------------------------|---------------------------|-----------------------------|------------|
| | Originated by Bank | Originated by Columbia | Residential Construction | Consumer |
| June 30, 2011 | | | | |
| Performing | \$ 880,818 | \$ 1,693 | \$ 8,969 | \$ 194,174 |
| Non-performing | 26,657 | 4,364 | 68 | 4,769 |
| | \$ 907,475 | \$ 6,057 | \$ 9,037 | \$ 198,943 |
| December 31, 2010 | | | | |
| Performing | \$ 918,890 | \$ 2,922 | \$ 13,380 | \$ 201,099 |
| Non-performing | 22,707 | 3,870 | 368 | 4,626 |
| | \$ 941,597 | \$ 6,792 | \$ 13,748 | \$ 205,725 |

The Company classifies certain loans as troubled debt restructurings (TDR) when credit terms to a borrower in financial difficulty are modified. The modifications typically include a reduction in rate, an extension in term and/or the capitalization of past due amounts. Included in the non-accrual loan total at June 30, 2011 and December 31, 2010 were \$6,049,000 and \$3,318,000, respectively, of troubled debt restructurings. At June 30, 2011 and December 31, 2010 the Company has allocated \$993,000 and \$569,000, respectively, of specific reserves to loans which are classified as troubled debt restructurings. Non-accrual loans which become troubled debt restructurings are returned to accrual status after six

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months of performance. Loans classified as a troubled debt restructuring and still accruing at June 30, 2011 and December 31, 2010 were \$15,053,000 and \$12,529,000, respectively. Troubled debt restructurings with six months of performance are considered in the allowance for loan losses similar to other performing loans. Troubled debt restructurings which are non-accrual or classified are considered in the allowance for loan losses similar to other non-accrual or classified loans.

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The following table presents information about troubled debt restructurings which occurred during the three and six months ended June 30, 2011 and troubled debt restructurings modified within the previous year and which defaulted during the three and six months ended June 30, 2011 (in thousands):

| | Number of Loans | Pre-modification Recorded Investment | Post-modification Recorded Investment |
|---|-----------------|--|---|
| Three months ended June 30, 2011 | | | |
| Troubled Debt Restructurings: | | | |
| Residential real estate: | | | |
| Originated by Bank | 5 | \$ 956 | \$ 956 |
| Originated by Columbia | 2 | 289 | 289 |
| Residential construction | | | |
| Commercial real estate: | | | |
| Commercial | | | |
| Construction and land | | | |
| Consumer | 2 | 276 | 276 |
| Commercial | | | |

| | Number of Loans | Recorded Investment |
|-------------------------------|--------------------|------------------------|
| Troubled Debt Restructurings | | |
| Which Subsequently Defaulted: | | |
| Residential real estate: | | |
| Originated by Bank | | \$ |
| Originated by Columbia | 3 | 1,534 |
| Residential Construction | | |
| Commercial real estate: | | |
| Commercial | 1 | 49 |
| Construction and land | | |
| Consumer | | |
| Commercial | | |

| | Number of Loans | Pre-modification Recorded Investment | Post-modification Recorded Investment |
|---------------------------------------|--------------------|--|---|
| Six months ended June 30, 2011 | | | |
| Troubled Debt Restructurings: | | | |
| Residential real estate: | | | |
| Originated by Bank | 8 | \$ 1,838 | \$ 1,838 |
| Originated by Columbia | 6 | 1,755 | 1,755 |
| Residential construction | | | |
| Commercial real estate: | | | |
| Commercial | 2 | 1,540 | 1,540 |
| Construction and land | | | |
| Consumer | 2 | 276 | 276 |
| Commercial | | | |

| | Number of Loans | Recorded Investment |
|-------------------------------|--------------------|------------------------|
| Troubled Debt Restructurings | | |
| Which Subsequently Defaulted: | | |
| Residential real estate: | | |
| Originated by Bank | | \$ |
| Originated by Columbia | 4 | 1,719 |
| Residential Construction | | |

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| | | |
|-------------------------|---|----|
| Commercial real estate: | | |
| Commercial | 1 | 49 |
| Construction and land | | |
| Consumer | | |
| Commercial | | |

Table of Contents**Note 6. Reserve for Repurchased Loans**

An analysis of the reserve for repurchased loans for the three and six months ended June 30, 2011 and 2010 is as follows (in thousands). The reserve is included in other liabilities in the accompanying statements of financial condition.

| | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------------|--------------------------------|--------|------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of period | \$ 809 | \$ 819 | \$ 809 | \$ 819 |
| Recoveries | | | | |
| Loss on loans repurchased | | (10) | | (10) |
| Balance at end of period | \$ 809 | \$ 809 | \$ 809 | \$ 809 |

The reserve for repurchased loans was established to provide for expected losses related to outstanding loan repurchase requests and additional repurchase requests which may be received on loans previously sold to investors. In establishing the reserve for repurchased loans, the Company considered all types of sold loans. At June 30, 2011, there was one outstanding loan repurchase request on a loan with a total principal balance of \$180,000, which the Company is contesting. There are also seven claims from one loan investor totaling \$2.8 million that the Company believes are covered by a settlement agreement and release between Columbia and the loan investor executed in August 2007. The Company has vigorously contested these claims and believes there are valid defenses, including the settlement and release agreement.

Note 7. Deposits

The major types of deposits at June 30, 2011 and December 31, 2010 were as follows (in thousands):

| Type of Account | June 30, 2011 | December 31, 2010 |
|---------------------------|---------------|-------------------|
| Non-interest-bearing | \$ 143,874 | \$ 126,429 |
| Interest-bearing checking | 892,113 | 920,324 |
| Money market deposit | 117,519 | 108,421 |
| Savings | 223,379 | 223,650 |
| Time deposits | 262,345 | 285,144 |
| Total deposits | \$ 1,639,230 | \$ 1,663,968 |

Note 8. Recent Accounting Pronouncements

Accounting Standards Update No. 2011-05, *Comprehensive Income* requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is not expected to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-04, *Fair Value Measurement, Amendments to achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* develops common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRSs). The amendments are effective for interim and annual periods beginning after December 15, 2011. The adoption of this Accounting Standard Update is not expected to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*, amends Topic 860 (Transfers and Servicing) where an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements, based on whether or not the transferor has maintained effective control. In the assessment of effective control, Accounting Standard Update 2011-03 has

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removed the criteria that requires transferors to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. Other criteria applicable to the assessment of effective control have not been changed. This guidance is effective for prospective periods beginning on or after December 15, 2011. Early adoption is prohibited. The adoption of this Accounting Standard Update is not expected to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-02 amends Topic 310 and clarifies the guidance on a creditor's evaluation of whether it has granted a concession, and whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may

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identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the information which was deferred by Accounting Standards Update No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring* in Update NO. 2010-20, for interim and annual periods beginning on or after June 15, 2011. The adoption of this Accounting Standard Update did not result in a material change to the Company's consolidated financial statements.

Accounting Standards Update No. 2010-20, amends ASC 310 (Receivables) to require significant new disclosures about the credit quality of financial receivables/loans and the allowance for credit losses. The objective of the new disclosures is to improve financial statement users understanding of (1) the nature of an entity's credit risk associated with its financing receivables, and (2) the entity's assessment of that risk in estimating its allowance for credit losses, as well as changes in the allowance and the reasons for those changes. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance (either by portfolio segment or by class of financing receivables). The required disclosures include, among other things, a rollforward of the allowance for credit losses by portfolio segment, as well as information about credit quality indicators and modified, impaired, non-accrual and past due loans. The disclosures related to period-end information (e.g., credit-quality information and the ending financing receivables balance segregated by impairment method) will be required in all interim and annual reporting periods ending on or after December 15, 2010 (December 31, 2010 for the Company). Disclosures of activity that occurs during a reporting period (e.g., loan modifications and the rollforward of the allowance for credit losses by portfolio segment) will be required in interim or annual periods beginning on or after December 15, 2010 (January 1, 2011 for the Company).

Accounting Standards Update No. 2010-06 under ASC 820 requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosure: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures of purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The new guidance did not have a significant impact on the Company's consolidated financial statements other than additional disclosures.

Note 9. Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value as of June 30, 2011 and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

| | Total Fair Value | Fair Value Measurements at Reporting Date Using: | | |
|--|------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2011 | | | | |
| Items measured on a recurring basis: | | | | |
| Investment securities available for sale: | | | | |
| U.S. agency obligations | \$ 71,827 | \$ 71,827 | \$ | \$ |
| State and municipal obligations | 15,477 | | 15,477 | |
| Corporate debt securities | 45,504 | | 45,504 | |
| Equity investments | 307 | 307 | | |
| Mortgage-backed securities available for sale | 336,731 | | 336,731 | |
| Items measured on a non-recurring basis: | | | | |
| Real estate owned | 2,142 | | | 2,142 |
| Loans measured for impairment based on the fair value of the underlying collateral | 6,450 | | | 6,450 |

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| | Total Fair Value | Fair Value Measurements at Reporting Date Using: | | |
|--|------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2010 | | | | |
| Items measured on a recurring basis: | | | | |
| Investment securities available for sale: | | | | |
| U.S. agency obligations | \$ 41,132 | \$ 41,132 | \$ | \$ |
| State and municipal obligations | 10,615 | | 10,615 | |
| Corporate debt securities | 39,856 | | 39,856 | |
| Equity investments | 315 | 315 | | |
| Mortgage-backed securities available for sale | 341,175 | | 341,175 | |
| Items measured on a non-recurring basis: | | | | |
| Real estate owned | 2,295 | | | 2,295 |
| Loans measured for impairment based on the fair value of the underlying collateral | 4,673 | | | 4,673 |

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Transfers between levels are recognized at the end of the reporting period. Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. Most of the Company's investment and mortgage-backed securities are fixed income instruments that are not quoted on an exchange, but are bought and sold in active markets. Prices for these instruments are obtained through third party pricing vendors or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotation and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

The Company utilizes third party pricing services to obtain estimated market values for its corporate bonds. Management's policy is to obtain and review all available documentation from the third party pricing service relating to their market and value determinations, including their methodology and summary of inputs. Management reviews this documentation, makes inquiries of the third party pricing service and makes a determination as to the level of valuation inputs. Based on the Company's review of available documentation and discussions with the third party pricing service, management concluded that Level 2 inputs were utilized. The significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities and observations of equity and credit default swap curves related to the issuer.

Real estate owned and loans measured for impairment based on the fair value of the underlying collateral are recorded at estimated fair value, less estimated selling costs. Fair value is based on independent appraisals.

Note 10. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and Due from Banks

For cash and due from banks, the carrying amount approximates fair value.

Investments and Mortgage-Backed Securities

Most of the Company's investment and mortgage-backed securities are fixed income instruments that are not quoted on an exchange, but are bought and sold in active markets. Prices for these instruments are obtained through third party pricing vendors or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

Federal Home Loan Bank of New York Stock

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The fair value for Federal Home Loan Bank of New York (FHLB) stock is its carrying value since this is the amount for which it could be redeemed. There is no active market for this stock and the Company is required to maintain a minimum investment based upon the outstanding balance of mortgage related assets and outstanding borrowings.

Table of Contents**Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms.

Fair value of performing and non-performing loans was estimated by discounting the future cash flows, net of estimated prepayments, at a rate for which similar loans would be originated to new borrowers with similar terms. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, and interest-bearing checking accounts and money market accounts are, by definition, equal to the amount payable on demand. The related insensitivity of the majority of these deposits to interest rate changes creates a significant inherent value which is not reflected in the fair value reported. The fair value of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

Commitments to Extend Credit and Sell Loans

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of the Bank's significant financial instruments as of June 30, 2011 and December 31, 2010 are presented in the following tables (in thousands):

| | June 30, 2011 | |
|---|---------------|------------|
| | Book Value | Fair Value |
| Financial Assets: | | |
| Cash and due from banks | \$ 28,934 | \$ 28,934 |
| Investment securities available for sale | 133,115 | 133,115 |
| Mortgage-backed securities available for sale | 336,731 | 336,731 |
| Federal Home Loan Bank of New York stock | 18,279 | 18,279 |
| Loans receivable and mortgage loans held for sale | 1,622,125 | 1,645,426 |
| Financial Liabilities: | | |
| Deposits | 1,639,230 | 1,645,587 |
| Borrowed funds | 374,199 | 380,000 |

| | December 31, 2010 | |
|---|-------------------|------------|
| | Book Value | Fair Value |
| Financial Assets: | | |
| Cash and due from banks | \$ 31,455 | \$ 31,455 |
| Investment securities available for sale | 91,918 | 91,918 |
| Mortgage-backed securities available for sale | 341,175 | 341,175 |
| Federal Home Loan Bank of New York stock | 16,928 | 16,928 |

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| | | |
|---|-----------|-----------|
| Loans receivable and mortgage loans held for sale | 1,667,462 | 1,675,805 |
| Financial Liabilities: | | |
| Deposits | 1,663,968 | 1,668,007 |
| Borrowed funds | 360,364 | 364,657 |

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because a limited market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other significant unobservable inputs. These estimates are subjective in nature and involve uncertainties and matters of significant judgment.

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and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 1A. Risk Factors

For a summary of risk factors relevant to the Company, see Part I, Item 1A, Risk Factors, in the 2010 Form 10-K. There were no material changes to risk factors relevant to the Company's operations since December 31, 2010 except as described below.

The Dodd-Frank Act directed the Board of Governors of the Federal Reserve System (FRB) to issue rules to limit debit-card interchange fees (the fees that issuing banks charge merchants each time a consumer uses a debit card) collected by banks with assets of \$10 billion or more. On June 29, 2011, the FRB issued a final rule which would cap an issuer's debit-card interchange base fee at twenty-one cents (\$0.21) per transaction and allow an additional 5 basis point charge per transaction to cover fraud losses. The FRB also issued an interim final rule that allows a fraud-prevention adjustment of one cent (\$0.01) per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. The Bank's average interchange fee per transaction is forty cents (\$0.40). The Dodd-Frank Act exempts from the FRB's rule banks with assets less than \$10 billion, such as the Bank. Although exempt from this rule, market forces may result in reduced fees charged by all issuers, regardless of asset size, which may result in reduced revenues for the Bank. For the six months ended June 30, 2011, the Bank's revenues from interchange fees were \$950,000. The rules are effective October 1, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Removed and Reserved

Item 5. Other Information

Not Applicable

Item 6. Exhibits

Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.0 Certification pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002.

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101.0 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.*

* Pursuant to SEC rules, this exhibit will not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OceanFirst Financial Corp.

Registrant

DATE: August 9, 2011

/s/ JOHN R. GARBARINO
John R. Garbarino
Chairman of the Board and Chief Executive Officer

DATE: August 9, 2011

/s/ MICHAEL J. FITZPATRICK
Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer