

OCEANFIRST FINANCIAL CORP

FORM 10-Q (Quarterly Report)

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Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	12/31

**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 September 30, 1996

**[] 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 0-27428*

OCEAN FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

22-3412577

(State of other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

74 Brick Boulevard, Brick, NJ

08723

(Address of principal executive
offices)

(Zip Code)

Registrant's telephone number, including area code: (908)477-5200

(Former name, former address and formal fiscal year, if changed since
last report)

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 X NO .

As of November 13, 1996, there were 9,059,124 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

OCEAN FINANCIAL CORP.

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OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands)

	September 30, 1996	December 31, 1995
	----- (Unaudited)	-----
ASSETS		
- - - - -		
Cash and due from banks	\$ 3,039	\$ 8,022
Investment securities available for sale	152,281	114,881
Federal Home Loan Bank of New York stock, at cost	8,457	7,723
Mortgage-backed securities available for sale	337,087	265,113
Loans receivable, net	650,350	612,696
Mortgage loans held for sale	-	1,894
Interest and dividends receivable	8,968	7,480
Real estate owned, net	1,541	1,367
Premises and equipment, net	12,304	7,641
Excess servicing asset	1,799	1,222
Other assets	14,237	8,406
	-----	-----
Total assets	\$1,190,063	\$1,036,445
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
- - - - -		
Deposits	\$ 926,271	\$ 926,558
Federal Home Loan Bank borrowings	5,400	10,400
Advances by borrowers for taxes and insurance	3,717	3,321
Other liabilities	7,973	3,815
	-----	-----
Total liabilities	943,361	944,094
	-----	-----
Stockholders' Equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, \$.01 par value, 55,000,000 shares authorized, 9,059,124 shares issued and outstanding at September 30, 1996	91	-
Additional paid-in capital	176,694	-
Employee Stock Ownership Plan	(12,601)	-
Retained earnings-substantially restricted	85,347	90,281
Net unrealized (loss) gain on securities available for sale, net of tax	(2,829)	2,070
	-----	-----
Total stockholders' equity	246,702	92,351
	-----	-----
Total liabilities and stockholders' equity	\$1,190,063	\$1,036,445
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	1996	1995	1996	1995
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$ 12,667	\$12,296	\$ 37,211	\$36,086
Mortgage-backed securities	4,896	3,379	14,448	10,159
Investment securities	2,779	2,090	7,441	5,888
	-----	-----	-----	-----
Total interest income	20,342	17,765	59,100	52,133
	-----	-----	-----	-----
Interest expense:				
Deposits	10,148	10,360	30,680	29,253
Federal Home Loan Bank borrowings	26	8	2,124	164
Other	4	-	155	-
	-----	-----	-----	-----
Total interest expense	10,178	10,368	32,959	29,417
	-----	-----	-----	-----
Net interest income	10,164	7,397	26,141	22,716
Provision for loan losses	225	238	475	712
	-----	-----	-----	-----
Net interest income after provision for loan losses	9,939	7,159	25,666	22,004
	-----	-----	-----	-----
Other income:				
Fees and service charges	444	390	1,384	1,201
Net gain on sales of loans available for sale	44	44	267	80
Net loss from real estate owned operations	(23)	(8)	(12)	(24)
Other	87	73	355	115
	-----	-----	-----	-----
Total other income	552	499	1,994	1,372
	-----	-----	-----	-----
Operating expenses:				
Compensation and employee benefits	2,537	2,252	7,521	6,463
Occupancy	424	418	1,325	1,296
Equipment	201	235	533	666
Marketing	187	215	514	652
Federal deposit insurance	6,310	551	7,459	1,639
Data processing	209	181	672	550
General and administrative	712	965	2,048	2,120
Charitable donation	13,419	-	13,419	-
	-----	-----	-----	-----
Total operating expenses	23,999	4,817	33,491	13,386
	-----	-----	-----	-----
Income (loss) before income taxes	(13,508)	2,841	(5,831)	9,990
Provision (benefit) for income taxes	(3,690)	1,061	(897)	3,753
	-----	-----	-----	-----
Net income (loss)	\$ (9,818)	\$ 1,780	\$ (4,934)	\$ 6,237
	=====	=====	=====	=====
Earnings (loss) per share	\$(1.17)	\$ -	\$ -	\$ -
	=====	=====	=====	=====
Weighted average shares outstanding	8,423	-	-	-
	=====	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the nine months ended September 30,	
	1996	1995
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ (4,934)	\$ 6,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Donation of 671,046 shares of common stock to the Ocean Federal Foundation	13,419	-
Depreciation and amortization of premises and equipment	541	624
Amortization of ESOP	885	-
Amortization of excess servicing asset	148	76
Net premium amortization in excess of discount accretion on mortgage-backed and investment securities	1,125	403
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(381)	(416)
Provision for loan losses	475	712
Provision for deferred taxes	(3,700)	-
Net gain on sales of real estate owned	(136)	(207)
Proceeds from sales of real estate owned	1,479	2,296
Net gain on sales of loans available for sale	(267)	(80)
(Increase) decrease in interest and dividends receivable	(1,488)	195
Decrease (increase) in other assets	695	(3,857)
Increase in other liabilities	4,158	1,288
Total adjustments	16,953	1,034
Net cash provided by operating activities	12,019	7,271
Cash flows from investing activities:		
Net increase in loans receivable	(39,265)	(29,196)
Proceeds from sales of mortgage loans held for sale	24,015	8,234
Mortgage loans originated for sale	(22,579)	(9,902)
Purchase of investment securities available for sale	(75,006)	-
Purchase of mortgage-backed securities available for sale	(163,128)	-
Proceeds from maturities of investments available for sale	34,125	-
Principal payments on mortgage-backed securities available for sale	85,784	-
Purchase of investment securities held to maturity	-	(25,000)
Purchase of mortgage-backed securities held to maturity	-	(20,435)
Proceeds from maturities of investments held to maturity	-	20,362
Principal payments on mortgage-backed securities held to maturity	-	30,243
Purchases of Federal Home Loan Bank of New York stock	(734)	(400)
Purchases of premises and equipment	(5,204)	(3,518)
Net cash used in investing activities	(161,992)	(29,612)

Continued

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)
(in thousands)

	For the nine months ended September 30,	
	1996	1995
	(Unaudited)	
Cash flows from financing activities:		
(Decrease) increase in deposits	\$ (287)	\$ 37,764
Decrease in Federal Home Loan Bank borrowings	(5,000)	(10,800)
Net proceeds of common stock issuance	149,881	-
Increase in advances by borrowers for taxes and insurance	396	708
Net cash provided by financing activities	144,990	27,672
Net (decrease) increase in cash and due from banks	(4,983)	5,331
Cash and due from banks at beginning of period	8,022	239
Cash and due from banks at end of period	\$ 3,039	\$ 5,570
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 33,090	\$ 29,433
Income taxes	4,206	3,915
Noncash investing activities:		
Transfer of loans receivable to real estate owned	1,517	2,414
Mortgage loans securitized into mortgage-backed securities	23,392	6,071

See accompanying notes to unaudited consolidated financial statements.

OCEAN FINANCIAL CORP. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Ocean Financial Corp. (the "Company") and its wholly owned subsidiary, Ocean Federal Savings Bank (the "Bank") and its inactive wholly-owned subsidiary, Dome Financial Services, Inc.

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 nine months ended September 30, 1996 are not necessarily indicative of the results of operations that may be expected for all of 1996.

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.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's prospectus, which is a part of the Company's Registration Statement on Form S-1 (No. 33-80123) as declared effective by the Securities and Exchange Commission on May 13, 1996.

NOTE 2. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 122, "Accounting for Mortgage Servicing Rights, an amendment of FASB Statement No. 65," which requires that a mortgage banking enterprise record as a separate asset, rights to service mortgage loans for others, however those servicing rights are acquired. In circumstances where mortgage loans are originated, separate asset rights to service mortgage loans are recorded when the enterprise intends to sell or securitize such loans and retain servicing. SFAS No. 122 was adopted by the Company prospectively beginning January 1, 1996. Adoption of this new statement did not have a material impact on the Company's financial position or results of operations.

NOTE 3. CONVERSION TO CAPITAL STOCK FORM OF OWNERSHIP

On August 17, 1995, the Board of Directors of the Bank adopted a Plan of Conversion, as amended, to convert from a federally chartered mutual savings bank to a federally chartered capital stock savings bank with the concurrent formation of a holding company ("the Conversion").

The Conversion was completed on July 2, 1996 with the issuance by the Company of 8,388,078 shares of its common stock in a public offering to the Bank's eligible depositors and the Bank's employee stock ownership plan (the "ESOP"). The purchase of 671,046 shares of common stock (8% of the total shares offered) by the ESOP was funded by a loan of \$13.4 million from the Company.

In exchange for 50% of the net conversion proceeds (\$81.6 million), the Company acquired 100% of the stock of the Bank and retained the remaining net conversion proceeds at the holding company level.

Concurrent with the close of the Conversion, an additional 671,046 shares of common stock (8% of the offering) were issued and donated by the Company to the Ocean Federal Foundation (the "Foundation"), a private foundation dedicated to

charitable purposes within Ocean County, New Jersey and its neighboring communities. The fair market value of the contribution of \$13.4 million was reflected as an expense in the Company's third quarter operating results and as an increase to capital stock and paid in capital for the same amount. The Company also recorded a related tax benefit of \$3.7 million with a corresponding increase to the Company's deferred tax assets. The net effect of the charitable donation on the Company's financial condition and results of operations for the third quarter was a decrease in net income of \$9.7 million, an increase in capital stock and paid in capital of \$13.4 million and an increase in deferred tax assets of \$3.7 million. Although the Company and the Bank have received an opinion of their independent accountants that the Company will be entitled to the deduction for the charitable contribution, there can be no assurances that the IRS will recognize the Foundation as a Section 501(c)(3) exempt organization or that the deduction will be permitted. In such event, the Company's contribution to the Foundation would be fully expensed, resulting in a further reduction in earnings of \$3.7 million in the year in which the IRS makes such a determination.

NOTE 4. LOANS RECEIVABLE, NET

Loans receivable at September 30, 1996 and December 31, 1995 consisted of the following (in thousands):

	September 30, 1996 ----- (Unaudited)	December 31, 1995 -----
Real estate:		
One- to four-family	\$605,333	\$575,010
Commercial real estate, multi-family and land	15,702	14,939
Construction	9,790	8,153
Consumer	30,842	26,867
	-----	-----
Total loans	661,667	624,969
Less:		
Undisbursed loan funds	3,843	2,687
Unamortized discounts, net	11	12
Deferred loan fees	1,520	1,679
Allowance for loan losses	5,943	6,001
	-----	-----
Total loans, net	650,350	614,590
Less: mortgage loans held for sale	-	1,894
	-----	-----
Loans receivable, net	\$650,350	\$612,696
	=====	=====

NOTE 5. DEPOSITS

The major types of deposits at September 30, 1996 and December 31, 1995 were as follows (in thousands):

Type of Account -----	September 30, 1996 ----- (Unaudited)	December 31, 1995 -----
NOW	\$ 75,210	\$ 75,010
Money Market deposit	69,163	70,556
Savings	172,280	175,777
Time deposits	609,618	605,215
	-----	-----
	\$926,271	\$926,558
	=====	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Total assets at September 30, 1996, were \$1.19 billion, an increase of \$153.6 million, or 14.8%, compared to \$1.04 billion at December 31, 1995. This growth was funded by \$149.9 million in net proceeds from the issuance of common stock in connection with the Bank's Conversion, which was completed on July 2, 1996. The Conversion proceeds were primarily used to repay borrowings and purchase investment and mortgage-backed securities.

Investment securities available-for-sale increased by \$37.4 million, to a balance of \$152.3 million at September 30, 1996, compared to a balance of \$114.9 million at December 31, 1995, and mortgage-backed securities increased by \$72.0 million to \$337.1 million at September 30, 1996 from \$265.1 million at December 31, 1995. The increase in investment and mortgage-backed securities is due to the investment of Conversion proceeds. Loans receivable, net, increased by \$37.7 million, or 6.1%, to a balance of \$650.4 million at September 30, 1996, compared to a balance of \$612.7 million at December 31, 1995. Premises and equipment increased by \$4.7 million or 61.0%, to \$12.3 million at September 30, 1996, from \$7.6 million at December 31, 1995, as a result of renovations in progress to a building purchased by the Bank in July 1995, which is the site of a new branch office and will be the Bank's new administrative facility. The renovation is due to be completed and the building occupied in late 1996. Other assets increased \$5.8 million from December 31, 1995 to September 30, 1996, primarily due to the recognition of deferred tax assets relating to the charitable donation and the net unrealized loss on securities available for sale.

Total deposits at September 30, 1996 were \$926.3 million, a decrease of \$287,000, compared to \$926.6 million at December 31, 1995 primarily due to deposit withdrawals of \$13.5 million to fund stock purchases in the Conversion. Stockholders' equity at September 30, 1996, was \$246.7 million, compared to \$92.4 million at December 31, 1995, an increase of \$154.4 million, primarily due to net Conversion proceeds of \$149.9 million.

RESULTS OF OPERATIONS

GENERAL

The Company incurred net losses of \$9.8 million and \$4.9 million for the three and nine months ended September 30, 1996, respectively, as compared to net income of \$1.8 million and \$6.2 million for the three and nine months ended September 30, 1995, respectively. The third quarter and year-to-date losses were effected by the charitable donation to the Ocean Federal Foundation of 671,046 shares of common stock which resulted in expense recognition of \$13.4 million (\$9.7 million net of tax), the fair market value of the stock at the time of the donation. (See note 3 to the unaudited consolidated financial statements.) Operating results for the three and nine months ended September 30, 1996 were further reduced by a special one-time assessment imposed on institutions such as the Bank insured by the Savings Association Insurance Fund ("SAIF") of the FDIC. The special assessment was 65.7 basis points on SAIF assessable deposits as of March 31, 1995. The Bank's assessment of \$5.7 million (\$3.7 million net of taxes) was recognized in the third quarter. (See Recapitalization of SAIF and Its Impact on SAIF Premiums.)

INTEREST INCOME

Interest income for the three months ended September 30, 1996 was \$20.3 million, compared to \$17.8 million for the three months ended September 30, 1995, an increase of \$2.6 million, or 14.5%. For the nine months ended September 30, 1996 interest income was \$59.1 million compared to \$52.1 million for the same period in 1995, an increase of \$7.0 million or 13.4%. The increases in interest income were the result of increases in the average size of the investment and mortgage-

backed securities available-for-sale portfolios due to the 1996 purchases relating to the investment of net Conversion proceeds. Many of these purchases were made early in 1996 as the Bank prefunded expected Conversion proceeds by increasing FHLB borrowings and investing the borrowed funds in investment and mortgage-backed securities. The FHLB borrowings were then repaid upon consummation of the Conversion. Additionally, the average balance of loans receivable also increased during the third quarter and first nine months of 1996 as compared to the third quarter and first nine months of 1995. The overall increase in interest-earning assets was partially offset by the effects of a lower average interest-earning asset yield which decreased to 7.08% for both the three and nine months ended September 30, 1996, as compared to 7.29% and 7.21% for the three and nine months ended September 30, 1995, respectively.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 1996, was \$10.2 million, compared to \$10.4 million for the three months ended September 30, 1995, a decrease of \$190,000, or 1.8%. For the nine months ended September 30, 1996 interest expense was \$33.0 million, compared to \$29.4 million for the same period in 1995, an increase of \$3.5 million, or 12.0%. The decrease in interest expense for the third quarter of 1996, as compared to the same period in 1995 was due to a reduction in the average cost of funds from 4.59% to 4.37%, which was substantially offset by an increase in average deposit balances of \$25.5 million. The increase in interest expense for the first nine months of 1996, as compared to the same period in 1995 was the result of an increase in the average outstanding balance of both deposits (to \$932.9 million for the nine months ended September 30, 1996, from \$889.0 million for the same period in 1995) and Federal Home Loan Bank borrowings (to \$48.3 million for the nine months ended September 30, 1996, from \$3.6 million for the same period in 1995).

PROVISION FOR LOAN LOSSES

For the three months and nine months ended September 30, 1996, the Bank's provision for loan losses was \$225,000 and \$475,000, respectively, compared to \$238,000 and \$712,000 for same prior year periods. The decreased provisions were based on management's assessment of the risks inherent in the Bank's loan portfolio.

OTHER INCOME

Other income increased to \$552,000 and \$2.0 million for the three months and nine months ended September 30, 1996, respectively, representing increases of \$53,000 and \$622,000, or 10.6% and 45.3%, compared to the same prior year periods. Income from fees and service charges increased \$54,000 and \$183,000, for the three and nine months ended September 30, 1996, respectively, compared to the same prior year periods due to revisions in the Bank's fee structure. Income from the net gain on sales of loans available for sale increased \$187,000 for the nine months ended September 30, 1996, compared to the same prior year period. The increase was due to a higher volume of loan sales and the adoption, effective January 1, 1996, of Statement for Financial Accounting Standards No. 122 "Accounting for Mortgage Servicing Rights, an amendment of FASB Statement No. 65," which allowed the Bank to record, as a separate asset, rights to service mortgage loans for others. The volume of loan sales decreased significantly in the third quarter of 1996 as higher market interest rates slowed refinancing activity and the Bank determined to retain in its portfolio a limited amount of 30-year fixed rate loan production which would have previously been sold. Other income increased \$240,000 for the nine months ended September 30, 1996, compared to the same prior year period due to the recovery of \$101,000 from the previous charge-off of a financial asset and due to the recognition of \$177,000 of income in 1996 relating to increases in the cash surrender value of life insurance policies on Bank officers used to fund benefit plans.

OPERATING EXPENSES

Operating expenses were \$24.0 million and \$33.5 million for the three and nine months ended September 30, 1996, respectively, representing increases of \$19.2 million and \$20.1 million compared to the same prior year periods. The charitable donation to the Ocean Federal Foundation accounted for \$13.4 million of the increase in both periods in 1996. The Bank's share of the special assessment imposed by the FDIC on SAIF-insured institutions of \$5.7 million accounted for the increase in federal deposit insurance for the three and nine months ended September 30, 1996, as compared to the same prior year periods. The increase in compensation and employee benefits expense of \$285,000 and \$1.1 million for the three and nine months ended September 30, 1996, respectively, as compared to the same prior year periods was due to the expense associated with the adoption, effective January 1, 1996, of the Employee Stock Ownership Plan (ESOP). This expense was partly offset by freezing the future accrual of benefits under the Bank's defined benefit pension plan. General and administrative expense amounted to \$712,000 and \$2.0 million for the three and nine months ended September 30, 1996, respectively, representing decreases of \$253,000 and \$72,000, as compared to the same prior year periods.

PROVISION (BENEFIT) FOR INCOME TAXES

Income tax benefit was \$3.7 million and \$900,000 for the three and nine months ended September 30, 1996, respectively, compared to income tax expense of \$1.1 million and \$3.8 million for the three and nine months ended September 30, 1995, respectively. The tax benefit in 1996 was due to the pretax losses created by the charitable donation and the SAIF special assessment.

The Company has been advised by its independent accountants that the Company's contribution of common stock to the Ocean Federal Foundation is tax deductible, subject to a limitation based on 10% of the Company's annual taxable income. The Company, however, is able to carry forward any unused portion of the deduction for five years following the year in which the contribution is made. Based on the Company's estimate of annual taxable income for the current year and for the next successive five years (the carryforward period), the Company recognized a tax benefit of \$3.7 million on the \$13.4 million charitable donation. An additional \$1.3 million of tax benefit was unrecognized due to the limitations imposed by the tax code. (See note 3 to the unaudited consolidated financial statements.)

RECAPITALIZATION OF SAIF AND ITS IMPACT ON SAIF PREMIUMS

On September 30, 1996, the President signed into law the Deposit Insurance Funds Act of 1996 (the "Funds Act") which, among other things, imposes a special one-time assessment on SAIF member institutions, including the Bank, to recapitalize the SAIF. As required by the Funds Act, the FDIC imposed a special assessment of 65.7 basis points on SAIF assessable deposits held as of March 31, 1995, payable November 27, 1996. The special assessment was recognized as an expense in the third quarter of 1996 and is tax deductible. The Bank took a pretax charge of \$5.7 million as a result of the FDIC special assessment.

The Funds Act also spreads the obligations for payment of the Financing Corporation ("FICO") bonds across all SAIF and BIF members. Beginning on January 1, 1997, BIF deposits will be assessed for FICO payments at a rate of 20% of the rate assessed on SAIF deposits. Based on current estimates by the FDIC, BIF deposits will be assessed a FICO payment of 1.3 basis points, while SAIF deposits will pay an estimated 6.4 basis points on the FICO bonds. Full pro rata sharing of the FICO payments between BIF and SAIF members will occur on the earlier of January 1, 2000 or the date the BIF and SAIF are merged. The Funds Act specifies that the BIF and SAIF will be merged on January 1, 1999 provided no savings and loans remain as of that time.

As a result of the Funds Act, the FDIC recently proposed to lower SAIF assessments to 0 to 27 basis points effective January 1, 1997, a range comparable

to that of BIF members. However, SAIF members will continue to make the higher FICO payments described above. Management cannot predict the level of FDIC insurance assessments on an on-going basis, whether the Bank charter will be eliminated or whether the BIF and SAIF will eventually be merged.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, principal and interest payments on loans, FHLB borrowings and, to a lesser extent, investment maturities and proceeds from the sale of loans. While scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and advances from the FHLB. At September 30, 1996, the Company had \$5.4 million of outstanding overnight borrowings from the FHLB, representing a decrease from \$10.4 million at December 31, 1995. The Company utilizes the overnight line from time to time to fund short-term liquidity needs.

The Company's cash needs for the nine months ended September 30, 1996, were principally provided by net proceeds of common stock issuance, maturities of investment securities and principal payments on loans and mortgage-backed securities. The cash provided was principally used for investing activities, which included the purchase of investment and mortgage-backed securities and the origination of loans. For the nine months ended September 30, 1995, the cash needs of the Company were primarily satisfied by growth in the deposit base, investment maturities and principal payments on loans and mortgage-backed securities. The cash was principally utilized for loan originations, purchases of investment and mortgage-backed securities and repayment of FHLB borrowings.

Federal regulations require the Bank to maintain minimum levels of liquid assets. The required percentage has varied from time to time based upon economic conditions and savings flows and is currently 5% of net withdrawable savings deposits and borrowings payable on demand or in one year or less during the preceding calendar month. Liquid assets for purposes of this ratio include cash, accrued interest receivable, certain time deposits, U.S. Treasury and Government agencies and other securities and obligations generally having remaining maturities of less than five years. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. As of September 30, 1996 and December 31, 1995, the Bank's liquidity ratios were 18.7% and 17.2%, respectively, both in excess of the 5% minimum regulatory requirement.

At September 30, 1996, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$163.0 million, or 13.7%, of total adjusted assets, which is above the required level of \$17.9 million or 1.5%; core capital of \$163.0 million or 13.7% of total adjusted assets, which is above the required level of \$35.8 million, or 3.0%; and risk-based capital of \$168.5 million, or 33.8% of risk-weighted assets, which is above the required level of \$39.9 million or 8.0%. The Bank is considered a "well capitalized" institution under the Office of Thrift Supervision's prompt corrective action regulations.

NON-PERFORMING ASSETS

The following table sets forth information regarding the Company's nonperforming assets consisting of non-accrual loans and Real Estate Owned (REO). The Company had no troubled-debt restructured loans within the meaning of SFAS 15 at September 30, 1996 or December 31, 1995. 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.

	September 30 1996	December 31, 1995
	-----	-----
	(Dollars in thousands)	
Non-accrual loans:		
Real estate:		
One-to four-family	\$7,875	\$ 8,296
Commercial real estate,		
multi-family and land	-	154
Construction	-	-
Consumer	159	221
	-----	-----
Total	8,034	8,671
REO, net	1,541	1,367
	-----	-----
Total non-performing assets	\$9,575	\$10,038
	=====	=====
Allowance for loan losses as a percent of total loans receivable	.91%	.97%
Allowance for loan losses as percent of total non-performing loans	73.97%	69.21%
Non-performing loans as a percent of total loans receivable	1.22%	1.40%
Non-performing assets as a percent of total assets	.80%	.97%

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 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

3.1 Certificate of Incorporation of Ocean Financial Corp.*

3.2 Bylaws of Ocean Financial Corp.*

11 Computation of earnings per share

27 Financial Data Schedule (filed herewith)

b) There were no reports on Form 8-K filed during the three months ended September 30, 1996.

*Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, filed on December 7, 1995, as amended, Registration No. 33-80123.

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.

Ocean Financial Corp.
Registrant

DATE: November 13, 1996

/s/ John R. Garbarino

Chairman of the Board, President
and Chief Executive Officer

DATE: November 13, 1996

/s/ Michael Fitzpatrick

Executive Vice President and
Chief Financial Officer

Exhibit 11

OCEAN FINANCIAL CORP.

STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Net income (loss)	\$ (9,818)	1,780	(4,669)	6,237
Weighted average shares outstanding:				
Weighted average shares issued	9,059,124	-	-	-
Less: Average shares held by the ESOP	(671,046)	-	-	-
Plus: ESOP shares released or committed to be released during the fiscal year	34,832	-	-	-
Weighted average shares outstanding	8,422,910	-	-	-
Earnings (loss) per share	\$ (1.17)	-	-	-

ARTICLE 9

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD END	SEP 30 1996
CASH	3,039
INT BEARING DEPOSITS	0
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	489,368
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	650,350
ALLOWANCE	5,943
TOTAL ASSETS	1,190,063
DEPOSITS	926,271
SHORT TERM	5,400
LIABILITIES OTHER	7,973
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	91
OTHER SE	246,611
TOTAL LIABILITIES AND EQUITY	1,190,063
INTEREST LOAN	37,211
INTEREST INVEST	21,889
INTEREST OTHER	0
INTEREST TOTAL	59,100
INTEREST DEPOSIT	30,680
INTEREST EXPENSE	32,959
INTEREST INCOME NET	26,141
LOAN LOSSES	475
SECURITIES GAINS	0
EXPENSE OTHER	33,491
INCOME PRETAX	(5,831)
INCOME PRE EXTRAORDINARY	(5,831)
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(4,934)
EPS PRIMARY	0
EPS DILUTED	0
YIELD ACTUAL	7.08
LOANS NON	9,575
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	6,001
CHARGE OFFS	0 ¹
RECOVERIES	0 ¹
ALLOWANCE CLOSE	5,943
ALLOWANCE DOMESTIC	0 ¹
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	0 ¹

¹ Information not disclosed in 10-Q.

End of Filing

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