

OCEANFIRST FINANCIAL CORP

FORM 10-Q (Quarterly Report)

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Address	975 HOOPER AVE TOMS RIVER, New Jersey 08753-8396
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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 June 30, 1998

**[] 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.)

975 Hooper Avenue, Toms River, NJ

08753

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (732) 240-4500

(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 August 6, 1998, there were 15,384,134 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
(dollars in thousands, except per share amounts)

	June 30, 1998 ----- (Unaudited)	December 31, 1997 -----
ASSETS -----		
Cash and due from banks	\$ 3,896	\$ 2,225
Federal funds sold	18,900	-
	-----	-----
Cash and cash equivalents	22,796	2,225
Investment securities available for sale	183,799	207,357
Federal Home Loan Bank of New York stock, at cost	15,043	14,980
Mortgage-backed securities available for sale	392,335	457,148
Loans receivable, net	870,450	783,695
Mortgage loans held for sale	3,009	-
Interest and dividends receivable	10,593	11,064
Real estate owned, net	432	1,198
Premises and equipment, net	14,480	14,279
Other assets	25,327	19,001
	-----	-----
Total assets	\$1,538,264 =====	\$1,510,947 =====
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
Deposits	\$1,013,192	\$ 976,764
Federal Home Loan Bank borrowings	-	20,400
Securities sold under agreements to repurchase	300,026	288,200
Advances by borrowers for taxes and insurance	5,525	4,773
Other liabilities	8,662	5,266
	-----	-----
Total liabilities	1,327,405 -----	1,295,403 -----
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, 18,118,248 shares issued and 15,534,134 and 15,705,720 shares outstanding at June 30, 1998 and December 31, 1997, respectively	181	181
Additional paid-in capital	177,936	177,223
Retained earnings-substantially restricted	101,001	97,487
Accumulated other comprehensive income	1,769	989
Less: Unallocated common stock held by Employee Stock Ownership Plan	(18,420)	(10,903)
Unearned Incentive Awards	(6,930)	(7,897)
Treasury Stock at cost (2,584,114 and 2,412,528 shares at June 30, 1998 and December 31, 1997, respectively)	(44,678)	(41,536)
	-----	-----
Total stockholders' equity	210,859 -----	215,544 -----
Total liabilities and stockholders' equity	\$1,538,264 =====	\$1,510,947 =====

See accompanying notes to unaudited consolidated financial statements.

Note: Shares and related amounts for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(dollars and shares in thousands, except per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	1998	1997	1998	1997
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$16,643	\$14,097	\$32,416	\$27,691
Mortgage-backed securities	6,293	6,680	13,333	12,410
Investment securities and other	3,283	3,533	6,697	6,754
Total interest income	26,219	24,310	52,446	46,855
Interest expense:				
Deposits	10,930	10,605	21,675	20,900
Borrowed funds	4,380	2,905	8,781	4,643
Total interest expense	15,310	13,510	30,456	25,543
Net interest income	10,909	10,800	21,990	21,312
Provision for loan losses	225	225	450	450
Net interest income after provision for loan losses	10,684	10,575	21,540	20,862
Other income:				
Fees and service charges	508	448	1,041	950
Net gain (loss) on sales of loans available for sale	164	0	167	(1)
Net income from other real estate operations	189	2	140	6
Other	192	125	326	207
Total other income	1,053	575	1,674	1,162
Operating expenses:				
Compensation and employee benefits	3,779	3,494	7,283	6,798
Occupancy	472	467	918	966
Equipment	355	358	668	670
Marketing	428	282	752	403
Federal deposit insurance	217	208	434	297
Data processing	314	292	627	670
General and administrative	1,108	744	1,973	1,502
Total operating expenses	6,673	5,845	12,655	11,306
Income before provision for income taxes	5,064	5,305	10,559	10,718
Provision for income taxes	1,862	1,889	3,848	3,913
Net income	\$ 3,202	\$ 3,416	\$ 6,711	\$ 6,805
Basic earnings per share	\$.23	\$.22	\$.48	\$.42
Diluted earnings per share	\$.23	\$.21	\$.47	\$.42
Average basic shares outstanding	13,757	15,796	13,864	16,142
Average diluted shares outstanding	14,177	15,949	14,246	16,246

See accompanying notes to unaudited consolidated financial statements.

Note: Earnings per share and shares outstanding for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

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

	For the six months ended June 30,	
	1998	1997
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 6,711	\$ 6,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	713	661
Amortization of Incentive Awards	967	807
Amortization of ESOP	683	714
ESOP adjustment	585	355
Tax benefit of stock plans	128	-
Amortization of servicing asset	167	89
Net premium amortization in excess of discount accretion on securities	1,755	1,931
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(261)	(183)
Provision for loan losses	450	450
Net gain on sales of real estate owned	(78)	(129)
Net (gain) loss on sales of loans available for sale	(167)	1
Proceeds from sales of mortgage loans held for sale	12,989	703
Mortgage loans originated for sale	(16,124)	-
Decrease (increase) in interest and dividends receivable	471	(2,042)
Increase in other assets	(5,629)	(537)
Increase in other liabilities	3,396	137
Total adjustments	45	2,957
Net cash provided by operating activities	6,756	9,762
Cash flows from investing activities:		
Net increase in loans receivable	(87,408)	(48,250)
Purchase of investment securities available for sale	(81,691)	(49,984)
Purchase of mortgage-backed securities available for sale	(40,567)	(151,199)
Proceeds from maturities of investment securities available for sale	105,025	15,270
Principal payments on mortgage-backed securities available for sale	105,087	88,396
Purchases of Federal Home Loan Bank of New York stock	(63)	(3,054)
Proceeds from sales of real estate owned	1,308	1,255
Purchases of premises and equipment	(914)	(1,296)
Net cash provided by (used in) investing activities	777	(148,862)

Continued

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

	For the six months ended June 30,	
	1998	1997
	(Unaudited)	
Cash flows from financing activities:		
Acquisition of deposits	\$ 10,732	-
Deposit premium	(1,030)	-
Increase in deposits	25,696	26,074
Decrease in Federal Home Loan Bank borrowings	(20,400)	(3,500)
Increase in securities sold under agreements to repurchase	11,826	138,090
Increase in advances by borrowers for taxes and insurance	752	851
Dividends paid	(3,196)	(1,689)
Purchase of Incentive Award stock	-	(10,176)
Purchase of ESOP shares	(8,200)	-
Purchase of treasury stock	(3,142)	(14,270)
Net cash provided by financing activities	13,038	135,380
Net increase (decrease) in cash and cash equivalents	20,571	(3,720)
Cash and cash equivalents at beginning of period	2,225	5,372
Cash and cash equivalents at end of period	\$ 22,796	\$ 1,652
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 30,090	\$ 25,136
Income taxes	10	3,711
Noncash investing activities:		
Transfer of loans receivable to real estate owned	464	839
Mortgage loans securitized into mortgage-backed securities	13,073	-
	=====	=====

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 wholly-owned subsidiaries, Ocean Federal Realty Inc. and Ocean Investment 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 six months ended June 30, 1998 are not necessarily indicative of the results of operations that may be expected for all of 1998.

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 Annual Report to Stockholders on Form 10-K for the year ended December 31, 1997.

Note 2. Earnings per Share

Amounts per common share for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend declared by the Company's Board of Directors on April 22, 1998 and paid on May 15, 1998.

The following reconciles shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 1998 and 1997

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
Weighted average shares issued net of Treasury shares	15,534	17,644	15,584	17,881
Less: Unallocated ESOP shares	(1,231)	(1,177)	(1,150)	(1,195)
Unallocated incentive award shares	(546)	(671)	(570)	(544)
Average basic shares outstanding	13,757	15,796	13,864	16,142
Add: Effect of dilutive securities:				
Stock options	283	73	248	51
Incentive awards	137	80	134	53
Average diluted shares outstanding	14,177	15,949	14,246	16,246
	=====	=====	=====	=====

Note 3. Impact of Recent Accounting Pronouncements

Effective January 1, 1998, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Under SFAS 130, comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly in equity, such as unrealized gains or losses on securities available for sale. Comparative financial statements provided for earlier periods have been reclassified to conform with the provisions of this Statement.

SFAS 130 requires total comprehensive income and its components to be displayed on the face of a financial statement for annual financial statements. For interim financial statements, SFAS 130 requires only total comprehensive income to be reported and allows such disclosure to be presented in the notes to the interim financial statements.

For the three month periods ended June 30, 1998 and 1997 total comprehensive income amounted to \$3,706,000 and \$3,515,000, respectively. For the six month periods ended June 30, 1998 and 1997, total comprehensive income amounted to \$7,491,000 and \$6,865,000, respectively.

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132). SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information about changes in the benefit obligations and fair value of plan assets that will facilitate financial analysis, and eliminates certain required disclosures of previous accounting pronouncements. SFAS 132 is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available. As SFAS 132 affects disclosure requirements, it is not expected to have an impact on the financial statements of the Company.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, and for hedging activities. SFAS No. 133 supersedes the disclosure requirements in SFAS No. 80, 105 and 119. This statement is effective for periods after June 15, 1999. The adoption of SFAS No. 133 is not expected to have a material impact on the financial position or results of operations of the Company.

Note 4. Loans Receivable, Net

Loans receivable, net at June 30, 1998 and December 31, 1997 consisted of the following (in thousands):

	June 30, 1998 ----- (Unaudited)	December 31, 1997 -----
Real estate:		
One- to four-family	\$785,101	\$711,548
Commercial real estate, multi-family and land	34,956	25,699
Construction	8,245	8,748
Consumer	50,553	45,417
Commercial	5,307	2,904
	-----	-----
Total loans	884,162	794,316
Less:		
Loans in process	2,810	2,867
Deferred fees	849	1,133
Unearned discounts	9	9
Allowance for loan losses	7,035	6,612
	-----	-----
Total loans, net	873,459	783,695
Less: mortgage loans held for sale	3,009	-
	-----	-----
Loans receivable, net	\$870,450	\$783,695
	=====	=====

Note 5. Deposits

The major types of deposits at June 30, 1998 and December 31, 1997 were as follows (in thousands):

Type of Account -----	June 30, 1998 ----- (Unaudited)	December 31, 1997 -----
Non-interest bearing	\$ 19,789	\$ 13,149
NOW	84,727	77,994
Money market deposit	72,157	67,979
Savings	166,956	163,202
Time deposits	669,563	654,440
	-----	-----
	\$1,013,192	\$976,764
	=====	=====

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Total assets at June 30, 1998 were \$1.538 billion, an increase of \$27.3 million, compared to \$1.511 billion at December 31, 1997.

Investment securities available for sale decreased by \$23.6 million, to a balance of \$183.8 million at June 30, 1998, compared to a balance of \$207.4 million at December 31, 1997, and mortgage-backed securities available for sale decreased by \$64.8 million, to \$392.3 million at June 30, 1998, from \$457.1 million at December 31, 1997. The investment and mortgage-backed securities available for sale portfolios decreased in order to fund growth in the Bank's loans receivable. Loans receivable, net, increased by \$86.8 million, or 11.1%, to a balance of \$870.5 million at June 30, 1998, compared to a balance of \$783.7 million at December 31, 1997. The increase was largely attributable to robust residential loan growth (including mortgage refinance activity) in the Bank's market area, as well as commercial lending (including commercial real estate) initiatives which accounted for \$11.7 million of this growth. Included in the residential loan growth is \$39.5 million of 30 year fixed rate mortgage loans which the Bank retained in portfolio, while \$13.1 million of 30-year fixed rate mortgage loans were sold. In the past, the Bank has often sold most of this product into the secondary market. Of the loans retained, the Bank funded \$29.2 million with repurchase agreements with approximate terms of three to seven years, mitigating part of the interest rate risk associated with retaining these mortgages.

Total deposits at June 30, 1998 were \$1.013 billion, an increase of \$36.4 million, compared to \$976.8 million at December 31, 1997. On June 29, 1998, the Company completed the purchase of \$10.7 million in deposit balances from Summit Bank's Whiting, New Jersey branch, for a deposit premium of \$1.0 million. Stockholders' equity at June 30, 1998 was \$210.9 million, compared to \$215.5 million at December 31, 1997. The Company repurchased 171,586 shares of common stock during the first quarter for \$ 3.1 million, completing the 5% repurchase program announced in October 1997. Additionally, during the second quarter of 1998, the Company loaned \$8.2 million to the Bank's Employee Stock Ownership Plan ("ESOP" or the "Plan") which enabled the ESOP trustee to purchase 422,500 shares of common stock. After the initial 12 year ESOP term expires in year 2008, these shares will begin to be allocated to employees covered by the Plan at which time they will be expensed by the Company.

Results of Operations

General

Net income decreased to \$3.2 million for the three months ended June 30, 1998 as compared to net income of \$3.4 million for the three months ended June 30, 1997. For the six months ended June 30, 1998 net income decreased to \$6.7 million from \$6.8 million for the six months ended June 30, 1997.

Interest Income

Interest income for the three months ended June 30, 1998 was \$26.2 million, compared to \$24.3 million for the three months ended June 30, 1997, an increase of \$1.9 million, or 7.9%. For the six months ended June 30, 1998, interest income was \$52.4 million compared to \$46.9 million for the same period in 1997, an increase of \$5.6 million or 11.9%. The increases in interest income were the result of increases in the average balance of loans receivable which increased by \$143.6 million and \$128.4 million for the three and six months ended June 30, 1998, respectively, as compared to the same prior year periods. For the three months ended June 30, 1998, the yield on earning assets remained constant at 7.12%, as compared to the same period in 1997 as declines in yields for loans and investments and mortgage-backed securities were offset by a shift in the asset mix from lower yielding securities to higher yielding loans receivable. For the six months ended June 30, 1998, interest income was augmented by an increase in the yield on average interest earning assets, which improved to 7.16% on average in the first six months of 1998, from 7.07% on average in the first six months of 1997. Increased yields on mortgage-backed securities and a change in the mix of earning assets to whole loans accounted for the increased yield.

Interest Expense

Interest expense for the three months ended June 30, 1998 was \$15.3 million, compared to \$13.5 million for the three months ended June 30, 1997, an increase of \$1.8 million, or 13.3%. For the six months ended June 30, 1998 interest expense was \$30.5 million compared to \$25.5 million for the same period in 1997, an increase of \$4.9 million or 19.2%. The increases in interest expense were primarily the result of an increase in the average outstanding balance of total borrowings (Federal Home Loan Bank and securities sold under agreements to repurchase) which increased by \$97.3 million and \$137.5 million for the three and six months ended June 30, 1998, respectively, as compared to the same prior year periods and a smaller average increase in deposits. The increase in wholesale borrowings was part of a leverage strategy adopted in late 1996 to improve returns on invested capital. Proceeds from the borrowings were invested in mortgage loans and investment

and mortgage-backed securities. The average cost of interest bearing liabilities increased to 4.78% for both the three and six months ended June 30, 1998, as compared to 4.71% and 4.64%, respectively, for the same prior year periods, due to a greater percentage increase in higher cost wholesale funding over retail deposit funding.

Provision for Loan Losses

For the three and six months ended June 30, 1998, the Company's provision for loan losses was \$225,000 and \$450,000, respectively, unchanged from the same prior year periods. The Company's non-performing assets declined by \$1.8 million at June 30, 1998 as compared to June 30, 1997 allowing for stable provisions despite loan growth.

Other Income

Other income increased to \$1.1 million and \$1.7 million for the three and six months ended June 30, 1998, respectively, compared to \$575,000 and \$1.2 million for the same prior year periods. The increases were primarily due to \$164,000 in gains recognized in the second quarter of 1998 on the sale of 30 year fixed rate mortgage loans, which the Company periodically sells to manage interest rate risk. Additionally, deposit related fees (part of fees and service charges) increased by \$121,000 and \$198,000 for the three and six months ended June 30, 1998, respectively, as compared to the same prior year periods, due to growth in commercial account services and retail core account balances. The growth in these fees was partly offset by reductions in loan servicing fees due to prepayments of the loans underlying the servicing portfolio.

Operating Expenses

Operating expenses were \$6.7 million and \$12.7 million for the three and six months ended June 30, 1998, representing increases of \$828,000 and \$1.3 million compared to the same prior year periods. The increases were partly due to higher non-cash charges relating to the Employee Stock Ownership Plan and expenses associated with the stock awards granted to directors and officers under the 1997 Incentive Plan. These non-cash charges increased by \$93,000 and \$361,000 for the three and six months ended, June 30, 1998, respectively, over the same prior year periods. Additionally, marketing expense increased by \$146,000 and \$349,000 as the Bank aggressively promoted its new retail checking products. The Bank also opened its eleventh branch office in early April of 1998.

Provision for Income Taxes

Income tax expense was \$1.9 million and \$3.8 million for the three and six months ended June 30, 1998, respectively, compared to \$1.9 million and \$3.9 million for the three and six months ended June 30, 1997, respectively. The effective tax rate was relatively stable at 36.4% for the six months ended June 30, 1998 as compared to 36.5% for the same prior year period.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans, FHLB and other borrowings and, to a lesser extent, investment maturities and proceeds from the sale of loans. While scheduled amortization of loans is a predictable source 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 June 30, 1998, the Company had no outstanding overnight borrowings from the FHLB, representing a decrease from \$20.4 million at December 31, 1997. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also borrowed \$300.0 million at June 30, 1998 through securities sold under agreements to repurchase, an increase from \$288.2 million at December 31, 1997. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the six months ended June 30, 1998, were principally provided by maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities and increased deposits, including a deposit acquisition. 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 six months ended June 30, 1997, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, securities sold under agreements to repurchase and increased deposits. The cash was principally utilized for loan originations and purchases of investment and mortgage-backed securities.

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 4% 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 June 30, 1998 and December 31, 1997, the Bank's liquidity ratios were 6.2% and 9.8%, respectively, both in excess of the minimum regulatory requirement.

At June 30, 1998, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$178.5 million, or 11.7%, of total adjusted assets, which is above the required level of \$23.0 million or 1.5%; core capital of \$178.5 million or 11.7% of total adjusted assets, which is above the required level of \$46.0 million, or 3.0%; and risk-based capital of \$185.4 million, or 26.6% of risk-weighted assets, which is above the required level of \$55.8 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 June 30, 1998 or December 31, 1997. 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, 1998	December 31, 1997
	-----	-----
	(Dollars in thousands)	
	(Unaudited)	
Non-accrual loans:		
Real estate:		
One-to four-family	\$5,301	\$5,062
Commercial real estate, multi-family and land	354	382
Consumer	72	110
	-----	-----
Total	5,727	5,554
REO, net	432	1,198
	-----	-----
Total non-performing assets	\$6,159	\$6,752
	=====	=====
Non-performing loans as a percent of total loans receivable	.65%	.70%
Non-performing assets as a percent of total assets	.40%	.45%
Allowance for loan losses as a percent of total loans receivable	.80%	.83%
Allowance for loan losses as percent of total non-performing loans	122.84%	119.03%

Impact of Year 2000

The Company is conducting a comprehensive review of its computer systems and third party vendors to identify the systems that could be affected by the "Year 2000" issue. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the Year 2000. This could result in system failure or miscalculations. The Company is devoting the necessary internal and external resources in the development of an implementation plan to address Year 2000. Management anticipates that all Year 2000 initiatives and testing will be completed in a timely manner and will meet all regulatory milestones. Expenditures in future years are not expected to have a material impact on the company.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic,

competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in Item 1, Business, of the Company's 1997 Form 10-K.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

The Company's interest rate sensitivity is monitored by management through the use of an interest rate risk (IRR) model. Based on internal IRR modeling, management does not believe that there has been a material change in the Company's interest rate sensitivity from December 31, 1997 to June 30, 1998. 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 in the Company's Annual Report for the fiscal year ended December 31, 1997.

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.*

4.0 Stock Certificate of Ocean Financial Corp.*

27 Financial Data Schedule (filed herewith)

b) There were no reports on Form 8-K filed during the three months ended June 30, 1998.

* 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: August 10, 1998

/s/ John R. Garbarino

John R. Garbarino
Chairman of the Board, President
and Chief Executive Officer

DATE: August 10, 1998

/s/ Michael Fitzpatrick

Michael Fitzpatrick
Executive Vice President and
Chief Financial Officer

ARTICLE 9

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 1 1998
PERIOD END	JUN 30 1998
CASH	3,896
INT BEARING DEPOSITS	0
FED FUNDS SOLD	18,900
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	0
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	576,134
LOANS	873,459
ALLOWANCE	7,035
TOTAL ASSETS	1,538,264
DEPOSITS	1,013,192
SHORT TERM	300,026
LIABILITIES OTHER	14,187
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	181
OTHER SE	210,678
TOTAL LIABILITIES AND EQUITY	1,538,264
INTEREST LOAN	32,416
INTEREST INVEST	20,030
INTEREST OTHER	0
INTEREST TOTAL	52,446
INTEREST DEPOSIT	21,675
INTEREST EXPENSE	30,456
INTEREST INCOME NET	21,990
LOAN LOSSES	450
SECURITIES GAINS	0
EXPENSE OTHER	12,655
INCOME PRETAX	10,559
INCOME PRE EXTRAORDINARY	10,559
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,711
EPS PRIMARY	.48
EPS DILUTED	.47
YIELD ACTUAL	7.16
LOANS NON	5,727
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	6,612
CHARGE OFFS	0 ¹
RECOVERIES	0 ¹
ALLOWANCE CLOSE	7,035
ALLOWANCE DOMESTIC	0 ¹
ALLOWANCE FOREIGN	0 ¹
ALLOWANCE UNALLOCATED	0 ¹

¹ INFORMATION NOT DISCLOSED IN 10 Q

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