

OCEANFIRST FINANCIAL CORP

FORM 10-Q (Quarterly Report)

Filed 11/13/2001 For Period Ending 9/30/2001

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

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

For the quarterly period ended September 30, 2001

☐ **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

OceanFirst 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 November 7, 2001, there were 10,026,289 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

OceanFirst Financial Corp.

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

PAGE

Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition as of September 30, 2001 and December 31, 2000.....	1
	Consolidated Statements of Income for the three and nine months ended September 30, 2001 and 2000.....	2
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2001 and 2000.....	3
	Notes to Consolidated Financial Statements.....	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	10
Part II.	OTHER INFORMATION	

Item 1.	Legal Proceedings.....	11
Item 2.	Changes in Securities.....	11
Item 3.	Default Upon Senior Securities.....	11
Item 4.	Submission of Matters to a Vote of Security Holders.....	11
Item 5.	Other Information.....	11
Item 6.	Exhibits and Reports on Form 8-K.....	11
Signatures		12

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share amounts)

	September 30, 2001 ----- (Unaudited)	December 31, 2000 -----
ASSETS -----		
Cash and due from banks	\$ 13,484	\$ 7,235
Investment securities available for sale	77,522	103,536
Federal Home Loan Bank of New York stock, at cost	22,800	20,000
Mortgage-backed securities available for sale	265,870	268,042
Loans receivable, net	1,277,102	1,136,879
Mortgage loans held for sale	40,349	35,588
Interest and dividends receivable	9,498	9,318
Real estate owned, net	55	157
Premises and equipment, net	16,604	14,676
Servicing asset	6,525	6,363
Other assets	37,244	38,423
	-----	-----
Total assets	\$1,767,053	\$1,640,217
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
Deposits	\$1,118,312	\$1,104,188
Federal Home Loan Bank advances	86,700	127,500
Securities sold under agreements to repurchase	396,928	236,494
Advances by borrowers for taxes and insurance	6,704	6,388
Other liabilities	8,852	7,911
	-----	-----
Total liabilities	1,617,496	1,482,481
	-----	-----
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 10,116,289 and 11,084,123 shares outstanding at September 30, 2001 and December 31, 2000, respectively	181	181
Additional paid-in capital	181,278	179,805
Retained earnings	128,905	121,737
Accumulated other comprehensive loss	(172)	(4,927)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(13,036)	(14,156)
Unearned Incentive Awards	(645)	(2,096)
Treasury stock, 8,001,959 and 7,034,125 shares at September 30, 2001 and December 31, 2000, respectively	(146,954)	(122,808)
	-----	-----
Total stockholders' equity	149,557	157,736
	-----	-----
Total liabilities and stockholders' equity	\$1,767,053	\$1,640,217
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	For the Three Months ended September 30		For the Nine Months ended September 30	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$24,300	\$21,753	\$70,130	\$62,395
Mortgage-backed securities	4,316	5,216	13,210	16,442
Investment securities and other	1,334	2,578	5,338	7,404
Total interest income	29,950	29,547	88,678	86,241
Interest expense:				
Deposits	9,978	11,361	32,760	32,682
Borrowed funds	5,722	6,025	15,998	16,219
Total interest expense	15,700	17,386	48,758	48,901
Net interest income	14,250	12,161	39,920	37,340
Provision for loan losses	265	255	780	745
Net interest income after provision for loan losses	13,985	11,906	39,140	36,595
Other income:				
Fees and service charges	783	1,227	3,408	3,340
Net gain (loss) on sales of loans and securities available for sale	1,001	(1,261)	3,505	(1,189)
Net income from other real estate operations	215	56	270	127
Other	481	400	1,388	997
Total other income	2,480	422	8,571	3,275
Operating expenses:				
Compensation and employee benefits	5,100	4,397	15,205	12,956
Occupancy	792	646	2,227	1,785
Equipment	544	418	1,601	1,145
Marketing	477	320	1,271	1,011
Federal deposit insurance	122	120	368	360
Data processing	521	425	1,580	1,190
General and administrative	1,915	1,934	5,390	4,219
Total operating expenses	9,471	8,260	27,642	22,666
Income before provision for income taxes	6,994	4,068	20,069	17,204
Provision for income taxes	2,312	248	6,873	4,733
Net income	\$ 4,682	\$ 3,820	\$13,196	\$12,471
Basic earnings per share	\$.51	\$.38	\$1.40	\$1.19
Diluted earnings per share	\$.48	\$.36	\$1.32	\$1.16
Average basic shares outstanding	9,190	10,091	9,440	10,437
Average diluted shares outstanding	9,744	10,501	9,969	10,739

See accompanying notes to unaudited consolidated financial statements.

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the nine months ended September 30,	
	2001	2000
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 13,196	\$ 12,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,449	1,185
Amortization of Incentive Awards	1,451	1,451
Amortization of ESOP	1,120	1,179
ESOP adjustment	986	442
Tax benefit of stock plans	487	-
Amortization and impairment of servicing asset	1,787	361
Amortization of intangible assets	269	78
Net premium amortization in excess of discount accretion on securities	483	293
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(208)	(202)
Provision for loan losses	780	745
Net gain on sales of real estate owned	(303)	(161)
Net gain on sales of loans and securities available for sale	(3,505)	1,189
Proceeds from sales of mortgage loans held for sale	273,175	51,297
Mortgage loans originated for sale	(274,431)	(61,866)
Increase in interest and dividends receivable	(180)	(1,586)
(Increase) decrease in other assets	(3,832)	192
Increase (decrease) in other liabilities	941	(1,217)
Total adjustments	469	(6,620)
Net cash provided by operating activities	13,665	5,851
Cash flows from investing activities:		
Net increase in loans receivable	(141,135)	(85,162)
Purchase of mortgage-backed securities available for sale	(49,006)	-
Purchase of investment securities available for sale	(92)	(12,500)
Proceeds from sale of investment securities	-	30,279
Proceeds from maturities of investment securities available for sale	23,470	200
Principal payments on mortgage-backed securities available for sale	60,879	44,498
Purchases of Federal Home Loan Bank of New York Stock	(2,800)	(3,200)
Proceeds from sales of real estate owned	745	974
Purchases of premises and equipment	(3,377)	(1,321)
Acquisition of Columbia Equities, Ltd. net of cash and cash equivalents	-	(2,954)
Net cash used in investing activities	(111,316)	(29,186)

Continued

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(dollars in thousands)

	For the nine months ended September 30,	
	2001	2000
	(Unaudited)	
Cash flows from financing activities:		
Increase in deposits	\$ 14,124	\$ 41,057
Decrease in Federal Home Loan Bank advances	(40,800)	(20,396)
Increase in securities sold under agreements to repurchase	160,434	34,118
Increase in advances by borrowers for taxes and insurance	316	596
Exercise of stock options	993	908
Dividends paid	(5,868)	(5,632)
Purchase of treasury stock	(25,299)	(22,276)
Net cash provided by financing activities	103,900	28,375
Net increase in cash and due from banks	6,249	5,040
Cash and due from banks at beginning of period	7,235	10,007
Cash and due from banks at end of period	\$ 13,484	\$ 15,047
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 48,533	\$ 48,971
Income taxes	5,680	4,295
Noncash investing activities:		
Transfer of loans receivable to real estate owned	340	644
Mortgage loans securitized into mortgage-backed securities	27,321	14,035
Supplemental Information to the Consolidated Statements of Cash Flows relating to the Acquisition of Colombia Equities, Ltd:		
Non cash investing and financing transactions relating to the Acquisition of Columbia Equities, Ltd. that are not reflected in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2000 are listed below:		
Fair value of assets acquired, excluding cash and cash equivalents	-	\$ 36,045
Liabilities assumed	-	(33,982)

See accompanying notes to unaudited consolidated financial statements.

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 Equities, Ltd., OceanFirst 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 nine months ended September 30, 2001 are not necessarily indicative of the results of operations that may be expected for all of 2001.

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, 2000.

Note 2. Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2001 and 2000 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Weighted average shares issued net of Treasury shares	10,388	11,534	10,683	11,932
Less: Unallocated ESOP shares	(1,044)	(1,164)	(1,074)	(1,195)
Unallocated incentive award shares	(154)	(279)	(169)	(300)
Average basic shares outstanding	9,190	10,091	9,440	10,437
Add: Effect of dilutive securities:				
Stock options	449	288	414	180
Incentive awards	105	122	115	122
Average diluted shares outstanding	9,744	10,501	9,969	10,739

Note 3. Comprehensive Income

For the three month periods ended September 30, 2001 and 2000 total comprehensive income, representing net income plus or minus items recorded directly in equity, such as the change in unrealized gains or losses on securities available for sale amounted to \$6,415,000 and \$8,807,000, respectively. For the nine months ended September 30, 2001 and 2000, total comprehensive income amounted to \$17,951,000 and \$14,398,000, respectively.

Note 4. Impact of Recent Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133". SFAS No. 138 amends certain aspects of SFAS No. 133 to simplify the accounting for derivatives and hedges under SFAS No. 133. SFAS No. 138 is effective upon the company's adoption of SFAS No. 133 (January 1, 2001). The initial adoption of SFAS No. 133 and SFAS No. 138 did not have a material impact on the Company's financial statements.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (A Replacement of FASB Statement 125)." SFAS No. 140 supersedes and replaces the guidance in SFAS No. 125 and, accordingly, provides guidance on the following topics:

securitization transactions involving financial assets, sales of financial assets such as receivables, loans, and securities; factoring transactions; wash sales; servicing assets and liabilities, collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan participations; and extinguishment of liabilities. The provisions of SFAS No. 140 are effective for transactions entered into after March 31, 2001. The initial adoption of SFAS No. 140 did not have a material impact on the Company's financial statements.

On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies the criteria acquired intangible assets must meet to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of."

SFAS 142 requires that goodwill and any intangible asset determined to have an indefinite useful life acquired after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

The Company is required to adopt the provisions of SFAS 141 immediately. The initial adoption of SFAS 141 had no impact on the Company's consolidated financial statements. The Company is required to adopt SFAS 142 effective January 1, 2002. As of September 30, 2001, the Company has 1.1 million in recorded goodwill with quarterly amortization of 63,000 which will cease upon the adoption of SFAS 142. The Company is currently evaluating the goodwill impairment criteria of SFAS 142 and is not able to estimate the impact, if any, that SFAS 142 may have on recorded goodwill upon the adoption of SFAS 142. The impairment adjustment, if any, will have to be recorded by the Company by no later than December 31, 2002. The Company does not anticipate that SFAS 142 will significantly impact the Company's accounting for currently recorded intangible assets, primarily core deposit intangibles.

Note 5. Loans Receivable, Net

Loans receivable, net at September 30, 2001 and December 31, 2000 consisted of the following (in thousands):

	September 30, 2001	December 31, 2000
	-----	-----
Real estate:		
One- to four-family	\$1,104,717	\$ 993,706
Commercial real estate, multi-family and land	100,148	89,663
Construction	8,419	7,973
Consumer	65,917	62,923
Commercial	49,285	29,687
	-----	-----
Total loans	1,328,486	1,183,952
Loans in process	(2,280)	(2,927)
Deferred origination costs, net	1,151	561
Unearned premium	5	19
Allowance for loan losses	(9,911)	(9,138)
	-----	-----
Total loans, net	1,317,451	1,172,467
Less: mortgage loans held for sale	40,349	35,588
	-----	-----
Loans receivable, net	\$1,277,102	\$1,136,879
	=====	=====

Note 6. Deposits

The major types of deposits at September 30, 2001 and December 31, 2000 were as follows (in thousands):

	September 30, 2001	December 31, 2000
Type of Account -----	-----	-----
Non-interest bearing	\$ 66,747	\$ 49,910
NOW	207,859	170,976
Money market deposit	73,502	71,010
Savings	188,183	165,866
Time deposits	582,021	646,426
	-----	-----
	\$1,118,312	\$1,104,188
	=====	=====

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

Financial Condition

Total assets at September 30, 2001 were \$1.767 billion, an increase of \$126.8 million, compared to \$1.640 billion at December 31, 2000.

Loans receivable, net, increased by \$140.2 million to a balance of \$1.277 billion at September 30, 2001, compared to a balance of \$1.137 billion at December 31, 2000. The increase was partly attributable to commercial lending (including commercial real estate) initiatives which accounted for \$30.1 million of this growth. Additionally, mortgage loan volume was strong due to increased refinance activity in the low interest rate environment. Deposit balances increased \$14.1 million to \$1.118 billion at September 30, 2001 from \$1.104 billion at December 31, 2000. Although overall deposit growth was modest, core deposit categories, a key emphasis for the Company, increased by \$78.5 million as time deposits declined.

Stockholder's equity at September 30, 2001 decreased to \$149.6 million, compared to \$157.7 million at December 31, 2000 due to the completion of the Company's eighth stock repurchase program in August 2001 and the commencement of the Company's ninth repurchase program immediately thereafter. The Company repurchased 1,033,943 shares of common stock during the nine months ended September 30, 2001 at a total cost of \$25.3 million. Under the 10% repurchase program authorized by the Board of Directors July 19, 2001, 791,976 shares remain to be purchased as of September 30, 2001.

Results of Operations

General

Net income increased to \$4.7 million for the three months ended September 30, 2001, as compared to net income of \$3.8 million for the three months ended September 30, 2000, while diluted earnings per share increased to \$.48 for the three months ended September 30, 2001, as compared to \$.36 for the same prior year period. For the nine months ended September 30, 2001, net income increased to \$13.2 million from \$12.5 million for the nine months ended September 30, 2000, while diluted earnings per share increased to \$1.32 for the nine months ended September 30, 2001 as compared to \$1.16 in the same prior year period. Earnings per share is favorably affected by the Company's repurchase program, which reduced the number of shares outstanding.

Interest Income

Interest income for the three and nine months ended September 30, 2001 was \$29.9 million and \$88.7 million, respectively, compared to \$29.5 million and \$86.2 million for the three and nine months ended September 30, 2000, respectively. The increases in interest income were due to increases in average interest-earning assets of \$84.2 million and \$61.1 million for the three and nine months ended September 30, 2001, respectively, as compared to the same prior year periods. The yield on interest-earning assets decreased to 7.22% and 7.34% for the three and nine months ended September 30, 2001, respectively, as compared to 7.50% and 7.42%, respectively, for the same prior year periods. Despite the declines, which were reflective of the general interest rate environment, the asset yield in both periods still benefited from the Bank's strong loan growth, which was partly funded by reductions in the lower yielding investment and mortgage-backed securities available for sale portfolios. For the three and nine months ended September 30, 2001 loans receivable represented 77.4% and 76.0%, respectively, of average interest-earning assets as compared to 71.5% and 70.1 %, respectively, for the same prior year periods.

Interest Expense

Interest expense for the three and nine months ended September 30, 2001 was \$15.7 million and \$48.8 million, respectively, compared to \$17.4 million and \$48.9 million for the three and nine months ended September 30, 2000, respectively. The decrease in interest expense was primarily the result of a decrease in the cost of interest-bearing liabilities to 4.17% and 4.45% for the three and nine months ended September 30, 2001, respectively, as compared to 4.85% and 4.65%, respectively, in the same prior year periods. Funding costs were partly restrained due to the Company's focus on lower costing core deposit growth. Core deposits (including non-interest-bearing deposits) represented 47.6% and 44.7% of average deposits for the three and nine months ended September 30, 2001, respectively, as compared to 38.4% and 38.0%, respectively, for the same prior year periods. The decline in funding costs was partly offset by an increase in average interest-bearing liabilities which rose by \$74.5 million and \$59.7 million for the three and nine months ended September 30, 2001, respectively, as compared to the same prior year periods.

Provision for Loan Losses

For the three and nine months ended September 30, 2001, the Company's provision for loan losses was \$265,000 and \$780,000, respectively, as compared to \$255,000 and \$745,000 for the same prior year periods.

Other Income

Other income was \$2.5 million and \$8.6 million for the three and nine months ended September 30, 2001, respectively, compared to \$422,000 and \$3.3 million for the same prior year periods. For the three and nine months ended September 30, 2000 the Company recognized a loss of \$1.6 million on the restructuring sale of \$32.1 million of securities available for sale. There were no sales of securities in 2001. For the three and nine months ended September 30, 2001 the Company recorded a gain of \$1.0 million and \$3.5 million, respectively, on the sale of loans, as compared to gains of \$375,000 and \$447,000, respectively, in the same prior year periods. The increased gains from loan sales are primarily due to the mortgage banking activities of Columbia Equities, Ltd. ("Columbia"), a mortgage banking company acquired by the Company on August 18, 2000. The Bank also periodically sells 30 year fixed-rate mortgage loans to assist in the management of interest rate risk.

Total servicing fee income decreased by \$797,000 and \$973,000 for the three and nine months ended September 30, 2001, respectively, as compared to the same prior year periods due to actual and anticipated prepayments of the loans underlying the servicing portfolio. Both 2001 periods include the recognition of a \$600,000 impairment reserve on the loan servicing asset. Excluding the 2000 loss on the sale of investment securities, the respective net gains on the sale of loans, and the decrease in servicing fee income, other income increased by \$593,000 and \$1.6 million for the three and nine months ended September 30, 2001, respectively, as compared to the same prior year periods. Fees and service charges increased due to the growth in commercial account services, retail core account balances, investment services and trust fees. The Company continues to focus on growing non-interest revenue with the expected introduction of insurance services later this year.

Operating Expenses

Operating expenses were \$9.5 million and \$27.6 million, respectively, for the three and nine months ended September 30, 2001, as compared to \$8.3 million and \$22.7 million, respectively, in the same prior year periods. The increases were principally due to operating expenses associated with Columbia, and the costs associated with the opening and operation of the Bank's fourteenth, fifteenth and sixteenth branch offices in May 2000, February 2001 and September 2001, respectively.

Provision for Income Taxes

Income tax expense was \$2.3 million and \$6.9 million for the three and nine months ended September 30, 2001 compared to \$248,000 and \$4.7 million for the same prior year periods. The Company recognized an income tax benefit of \$1.1 million in the third quarter of 2000 relating to the additional charitable donation expense associated with the 1996 formation of the OceanFirst Foundation (the "Foundation"). The Company established the Foundation as part of the conversion to public ownership and recorded a charitable donation expense of \$13.4 million in 1996. Charitable donations are tax deductible subject to a limitation of 10% of annual taxable income. The Company is able to carry forward any unused portion of the deduction for five years following the year in which the contribution was made. Based on the Company's original estimate of taxable income for 1996 and the carry forward period, \$4.3 million of charitable donation expense was considered not tax deductible because the Company believed it was unlikely to realize sufficient earnings over the six year period to take the full deduction. After considering the Company's earnings performance and expectations for taxable income through December 31, 2001, the Company estimated in September 2000 that an additional \$3.0 million of charitable donation expense would be recognized for tax purposes, providing for a tax benefit of \$1.1 million. The Company has a remaining

charitable donation expense carry forward of \$1,256,000 (\$440,000 on an after-tax basis) which expires on December 31, 2001.

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, Federal Home Loan Bank ("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 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, 2001, the Company had \$86.7 million of outstanding overnight borrowings from the FHLB, an increase from \$52.5 million at December 31, 2000. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of \$396.9 million at September 30, 2001, an increase from \$311.5 million at December 31, 2000. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the nine months ended September 30, 2001, were primarily provided by principal payments on loans and mortgage-backed securities, maturities of investment securities, proceeds from the sale of mortgage loans held for sale and increased total borrowings. The cash was principally utilized for loan originations, the purchase of mortgage-backed securities and the purchase of treasury stock. For the nine months ended September 30, 2000, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased deposits and total borrowings. The cash provided was principally used for the origination of loans and the purchase of treasury stock.

At September 30, 2001, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$127.4 million, or 7.2%, of total adjusted assets, which is above the required level of \$26.6 million or 1.5%, core capital of \$127.4 million or 7.2% of total adjusted assets, which is above the required level of \$53.2 million, or 3.0%; and risk-based capital of \$137.2 million, or 13.3 % of risk-weighted assets, which is above the required level of \$82.6 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). 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, 2001	December 31, 2000
	-----	-----
	(dollars in thousands)	
Non-accrual loans:		
Real estate:		
One-to four-family	\$ 3,731	\$ 2,594
Commercial real estate, multi-family and land	-	-
Consumer	151	147
Commercial	2,368	182
	-----	-----
Total	6,250	2,923
REO, net	55	157
	-----	-----
Total non-performing assets	\$ 6,305	\$ 3,080
	=====	=====
Non-performing loans as a percent of total loans receivable	.47%	.25%
Non-performing assets as a percent of total assets	.36	.19
Allowance for loan losses as a percent of total loans receivable	.75	.77
Allowance for loan losses as percent of total non-performing loans	158.58	312.62

The increase in non-performing loans is due primarily to one non-performing commercial loan with an outstanding balance of \$2.4 million, which was placed on non-accrual status during the quarter ended June 30, 2001. The loan is represented by a participation interest in a \$125 million shared national credit on a company headquartered in New Jersey, and is secured by corporate assets and various commercial real estate properties. The Bank does not participate in any other shared national credits.

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, and the effects of war or terrorism activities 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 2000 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 the Company's one year gap at September 30, 2001 was negative 14.5% as compared to negative 10.8% at December 31, 2000. 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 September 30, 2001 and December 31, 2000. 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 year ended December 31, 2000.

At September 30, 2001, the Company's NPV in a static rate environment is less than the NPV at December 31, 2000, reflecting the Company's declining capital levels resulting from common stock repurchase programs and the lower interest rate environment which reduces the value of the Company's core deposits. In a shocked interest rate environment, the Company projects comparable changes in NPV and Net Interest Income at September 30, 2001 as compared to December 31, 2000.

Change in Interest Rates in Basis Points (Rate Shock)	September 30, 2001						December 31, 2000					
	Net Portfolio Value			Net Interest Income			Net Portfolio Value			Net Interest Income		
	Amount	% Change	NPV Ratio	Amount	% Change		Amount	% Change	NPV Ratio	Amount	% Change	
(dollars in thousands)												
300	\$ 93,943	(41.5)%	5.7%	\$49,589	(13.1)%		\$122,407	(37.9)%	8.2%	\$42,061	(13.9)%	
200	123,012	(23.4)	7.2	52,533	(8.0)		153,064	(22.3)	9.9	44,556	(8.8)	
100	146,968	(8.5)	8.4	55,181	(3.3)		179,453	(8.9)	11.3	46,728	(4.3)	
Static	160,645	-	9.0	57,083	-		197,049	-	12.1	48,837	-	
(100)	164,355	2.3	9.0	57,776	1.2		201,071	2.0	12.1	49,569	1.5	
(200)	165,925	3.3	9.0	56,827	(0.5)		196,426	(.3)	11.6	49,483	1.3	
(300)	170,058	5.9	9.3	54,409	(4.7)		186,175	(5.5)	10.9	48,675	(.3)	

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 a 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 OceanFirst Financial Corp.*

3.2 Bylaws of OceanFirst Financial Corp.**

4.0 Stock Certificate of OceanFirst Financial Corp.*

b) There were no reports on Form 8-K filed during the three months ended September 30, 2001.

* 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.

** Incorporated herein by reference into this document from the Exhibit to Form 10-Q, Quarterly Report, filed on August 11, 2000.

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: November 13, 2001 /s/ John R. Garbarino

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

DATE: November 13, 2001 /s/ Michael Fitzpatrick

Michael Fitzpatrick
Executive Vice President and
Chief Financial Officer

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