

Kearny Financial Corp.
Form 10-K
September 15, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2008

or

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: **0-51093**

KEARNY FINANCIAL CORP.
(Exact name of Registrant as specified in its Charter)

United States
(State or other Jurisdiction of
Incorporation or Organization)

22-3803741
(I.R.S. Employer
Identification No.)

120 Passaic Avenue, Fairfield, New Jersey
(Address of Principal Executive Offices)

07004
(Zip Code)

Registrant's telephone number, including area code: **(973) 244-4500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$0.10 par value

Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$198.6 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of September 5, 2008 there were outstanding 70,450,703 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders. (Part III)
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KEARNY FINANCIAL CORP.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended June 30, 2008

INDEX

PART I

	Page
Item 1. Business	2
Item 1A. Risk Factors	33
Item 1B. Unresolved Staff Comments	36
Item 2. Properties	36
Item 3. Legal Proceedings	38
Item 4. Submission of Matters to a Vote of Security Holders	38

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	39
Item 6. Selected Financial Data	42
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	73
Item 8. Financial Statements and Supplementary Data	76
Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure	76
Item 9A. Controls and Procedures	76
Item 9B. Other Information	76

PART III

Item 10. Directors, Executive Officers and Corporate Governance	77
Item 11. Executive Compensation	77
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	77
Item 13. Certain Relationships and Related Transactions, and Director Independence	78
Item 14. Principal Accounting Fees and Services	78

PART IV

Item 15. Exhibits, Financial Statement Schedules	79
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SIGNATURES

i

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Forward-Looking Statements

Kearny Financial Corp. (the “Company” or the “Registrant”) may from time to time make written or oral “forward-looking statements,” including statements contained in the Company’s filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). In addition to the factors described under Item 1A. Risk Factors, the following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations; the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the impact of changes in financial services laws and regulations (including laws concerning taxation, banking, securities and insurance); changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board (“FASB”) or the Public Company Accounting Oversight Board; technological changes; competition among financial services providers; and the success of the Company at managing the risks involved in the foregoing and managing its business.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

PART I

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the “Bank”), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, representing 30% of its outstanding common stock upon completion of the offering. The remaining 70% of the outstanding common stock, totaling 50,916,250 shares, were retained by Kearny MHC (the “MHC”). The MHC is a federally-chartered mutual holding company and so long as the MHC is in existence, it will at all time own a majority of the outstanding common stock of the Company. The stock repurchase programs conducted by the Company since the offering have reduced the total number of shares outstanding. The 50,916,250 shares held by the MHC represented 72.2% of the total shares outstanding as of the Company’s June 30, 2008 fiscal year end. The MHC and the Company are regulated by the Office of Thrift Supervision.

The Company is a unitary savings and loan holding company and conducts no significant business or operations of its own. References in this Annual Report on Form 10-K to the Company or Registrant generally refer to the Company and the Bank, unless the context indicates otherwise. References to “we,” “us,” or “our” refer to the Bank or Company, or both, as the context indicates.

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The Bank was originally founded in 1884 as a New Jersey mutual building and loan association. It obtained federal insurance of accounts in 1939 and received a federal charter in 1941. The Bank's deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation and the Bank is regulated by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

Our primary business is attracting retail deposits from the public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our investing and lending activities. We invest in mortgage-backed securities, U.S. government obligations, obligations of state and political subdivisions and other securities. Our loan portfolio consists of one-to-four family residential mortgage loans, multi-family and commercial mortgage loans, commercial business loans, home equity loans and lines of credit, other consumer loans and construction loans. At June 30, 2008, net loans receivable comprised 49.0% of our total assets while securities (mortgage-backed securities and non-mortgage-backed) comprised 36.7% of our total assets. By comparison, at June 30, 2007, net loans receivable comprised 44.9% of our total assets while securities comprised 38.2% of our total assets. It is our intention to continue increasing the balance of our loan portfolio relative to the size of our securities portfolio.

We operate from an administrative headquarters in Fairfield, New Jersey and as of June 30, 2008 had 28 branch offices. We also operate an Internet website at www.kearnyfederalavings.com. As of June 30, 2008, we had 266 full-time employees and 20 part-time employees.

Market Area. Our primary market area consists of the northern New Jersey counties in which we currently operate branches: Bergen, Hudson, Passaic, Morris, Middlesex, Essex, Union and Ocean Counties. We also consider Monmouth County, New Jersey to be part of our market area. Our lending is concentrated in these nine counties and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

Our primary market area is largely urban and suburban with a broad economic base as is typical within the New York metropolitan area. Service jobs represent the largest employment sector followed by wholesale/retail trade.

Our business of attracting deposits and making loans is primarily conducted within our market area. A downturn in the local economy could reduce the amount of funds available for deposit and the ability of borrowers to repay their loans. As a result, our profitability could decrease.

Competition. We operate in a market area with a high concentration of banking and financial institutions and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans and we face competition for funds from investment products such as mutual funds, short-term money market funds and corporate and government securities. There are large competitors operating throughout our total market area, including Bank of America, TD Commerce Bank, Wachovia Bank, PNC Bank and Hudson City Savings Bank with JP Morgan Chase Bank and Citibank also expanding their presence and we face strong competition from other community-based financial institutions. Based on data compiled by the Federal Deposit Insurance

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Corporation as of June 30, 2007, the latest date for which such data is available, Kearny Federal Savings Bank was ranked 20th of 119 depository institutions operating in the eight counties in which it has branches with 0.95% of total FDIC-insured deposits.

Lending Activities

General. We have traditionally focused on the origination of one-to-four family loans, which comprise a significant majority of our total loan portfolio. Our next largest category of lending is commercial real estate, which includes multi-family dwellings, mixed-use properties and other commercial properties. We also offer consumer loans (primarily composed of home equity loans and lines of credit), construction loans (to builders and developers as well as to individual homeowners) and commercial business loans, generally secured by real estate. Substantially all of our borrowers are residents of our primary market area and would be expected to be similarly affected by economic and other conditions in that area. Since May 2007, we have been purchasing out-of-state one-to-four family first mortgage loans in states we have deemed to be minimally affected by the housing and credit crises, to supplement our in-house originations, as discussed on Page 11.

	At June 30,		2007		2006		2005		2004		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
	(Dollars in Thousands)										
Real estate mortgage:											
One-to-four family	\$ 687,679	66.99 %	\$ 559,306	64.66 %	\$ 465,822	65.80 %	\$ 382,766	68.03 %	\$ 358,241	70.22 %	
Multi-family and commercial	178,588	17.40	159,147	18.40	107,111	15.13	96,685	17.19	83,426	16.35	
Commercial business	8,735	0.85	4,205	0.48	3,208	0.45	2,930	0.52	5,161	1.01	
Consumer:											
Home equity loans	123,978	12.08	113,624	13.14	93,639	13.23	54,199	9.63	37,381	7.33	
Home equity lines of credit	11,478	1.12	12,748	1.47	12,988	1.83	14,850	2.64	15,677	3.07	
Passbook or certificate	2,662	0.26	3,250	0.38	2,884	0.41	2,831	0.50	2,746	0.54	
Other	1,332	0.13	1,391	0.16	247	0.03	264	0.05	336	0.07	
Construction	12,062	1.17	11,360	1.31	22,078	3.12	8,094	1.44	7,212	1.41	
Total loans	1,026,514	100.00 %	865,031	100.00 %	707,977	100.00 %	562,619	100.00 %	510,180	100.00 %	
Less:											
Allowance for loan losses	6,104		6,049		5,451		5,416		5,144		
Deferred loan (costs) and fees, net	(1,276)		(1,511)		(1,087)		(815)		(758)		
	4,828		4,538		4,364		4,601		4,386		
Total loans, net	\$ 1,021,686		\$ 860,493		\$ 703,613		\$ 558,018		\$ 505,794		

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Loan Maturity Schedule. The following table sets forth the maturities of our loan portfolio at June 30, 2008. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Real estate mortgage:	Real estate mortgage:	Commercial business	Home equity loans	Home equity lines of credit	Passbook or certificate	Other	Construction	Total
	One-to-four family	Multi-family commercial							
	(In Thousands)								

Amounts Due: