

Northfield Bancorp, Inc.  
Form 10-Q  
November 09, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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, 2011**

**or**

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

**For transition period from            to  
Commission File Number 1-33732**

**NORTHFIELD BANCORP, INC.  
(Exact name of registrant as specified in its charter)**

**United States of America  
(State or other jurisdiction of incorporation)**

**42-1572539  
(I.R.S. Employer Identification No.)**

**1410 St. Georges Avenue, Avenel, New Jersey  
(Address of principal executive offices)**

**07001  
(Zip Code)**

**Registrant's telephone number, including area code: (732) 499-7200**

**Not Applicable**

**(Former name, former address, and former 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  No . Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required and post such files). Yes  No . 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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. 40,624,731 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of November 4, 2011.

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**NORTHFIELD BANCORP, INC.**  
Form 10-Q Quarterly Report  
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**Table of Contents****ITEM 1. FINANCIAL STATEMENTS****NORTHFIELD BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS**September 30, 2011, and December 31, 2010  
(In thousands, except per share amounts)

	<b>September 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS:</b>		
Cash and due from banks	\$ 10,311	\$ 9,862
Interest-bearing deposits in other financial institutions	23,193	33,990
Total cash and cash equivalents	33,504	43,852
Trading securities	3,902	4,095
Securities available-for-sale, at estimated fair value (encumbered \$360,891 in 2011 and \$275,694 in 2010)	1,206,069	1,244,313
Securities held-to-maturity, at amortized cost (estimated fair value of \$4,324 in 2011 and \$5,273 in 2010) (encumbered \$0 in 2011 and 2010)	4,130	5,060
Loans held-for-sale	1,555	1,170
Loans held-for-investment, net	965,257	827,591
Allowance for loan losses	(25,503)	(21,819)
Net loans held-for-investment	939,754	805,772
Accrued interest receivable	7,804	7,873
Bank owned life insurance	77,040	74,805
Federal Home Loan Bank of New York stock, at cost	9,531	9,784
Premises and equipment, net	18,260	16,057
Goodwill	16,159	16,159
Other real estate owned	34	171
Other assets	13,371	18,056
<b>Total assets</b>	<b>2,331,113</b>	<b>2,247,167</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
<b>LIABILITIES:</b>		
Deposits	1,454,827	1,372,842
Borrowings	454,346	391,237
Advance payments by borrowers for taxes and insurance	2,901	693
Accrued expenses and other liabilities	28,785	85,678
<b>Total liabilities</b>	<b>1,940,859</b>	<b>1,850,450</b>
<b>STOCKHOLDERS EQUITY:</b>		

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Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value: 90,000,000 shares authorized, 45,632,611 shares issued at September 30, 2011, and December 31, 2010, respectively, 41,220,491 and 43,316,021 outstanding at September 30, 2011, and December 31, 2010, respectively	456	456
Additional paid-in-capital	208,481	205,863
Unallocated common stock held by employee stock ownership plan	(14,750)	(15,188)
Retained earnings	232,862	222,655
Accumulated other comprehensive income	19,420	10,910
Treasury stock at cost; 4,412,120 and 2,316,590 shares at September 30, 2011, and December 31, 2010, respectively	(56,215)	(27,979)
<b>Total stockholders equity</b>	<b>390,254</b>	<b>396,717</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,331,113</b>	<b>\$ 2,247,167</b>

See accompanying notes to the unaudited consolidated financial statements.

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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
 Three and nine months ended September 30, 2011, and 2010  
 (Unaudited)  
 (In thousands, except share data)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest income:</b>				
Loans	\$ 14,044	\$ 11,908	\$ 39,296	\$ 34,299
Mortgage-backed securities	7,746	8,144	24,838	25,452
Other securities	781	1,537	2,538	4,605
Federal Home Loan Bank of New York dividends	113	75	343	233
Deposits in other financial institutions	35	18	140	132
<b>Total interest income</b>	<b>22,719</b>	<b>21,682</b>	<b>67,155</b>	<b>64,721</b>
<b>Interest expense:</b>				
Deposits	3,111	3,197	9,399	10,531
Borrowings	3,331	2,807	9,879	8,046
<b>Total interest expense</b>	<b>6,442</b>	<b>6,004</b>	<b>19,278</b>	<b>18,577</b>
<b>Net interest income</b>	<b>16,277</b>	<b>15,678</b>	<b>47,877</b>	<b>46,144</b>
Provision for loan losses	2,000	3,398	5,117	8,126
<b>Net interest income after provision for loan losses</b>	<b>14,277</b>	<b>12,280</b>	<b>42,760</b>	<b>38,018</b>
<b>Non-interest income:</b>				
Fees and service charges for customer services	740	631	2,181	1,920
Income on bank owned life insurance	749	565	2,235	1,502
(Loss) gain on securities transactions, net	(271)	423	2,373	1,568
Other-than-temporary impairment losses on securities		(962)	(1,152)	(962)
Portion recognized in other comprehensive income (before taxes)		808	743	808
<b>Net impairment losses on securities recognized in earnings</b>		<b>(154)</b>	<b>(409)</b>	<b>(154)</b>
Other	22	36	159	254
<b>Total non-interest income</b>	<b>1,240</b>	<b>1,501</b>	<b>6,539</b>	<b>5,090</b>
<b>Non-interest expense:</b>				
Compensation and employee benefits	4,890	4,830	15,101	13,829
Director compensation	370	330	1,141	1,099
Occupancy	1,685	1,328	4,508	3,711
Furniture and equipment	312	267	891	798

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Data processing	720	653	2,054	1,921
FDIC insurance	382	452	1,242	1,337
Professional fees	454	2,218	1,523	3,074
Other	973	1,093	2,863	2,980
Total non-interest expense	9,786	11,171	29,323	28,749
Income before income tax expense	5,731	2,610	19,976	14,359
<b>Income tax expense</b>	2,035	215	6,963	4,397
<b>Net income</b>	\$ 3,696	\$ 2,395	\$ 13,013	\$ 9,962
<b>Basic and diluted earnings per share</b>	\$ 0.09	\$ 0.06	\$ 0.32	\$ 0.24

See accompanying notes to the unaudited consolidated financial statements.



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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
 Nine months ended September 30, 2011, and 2010  
 (Unaudited)  
 (Dollars in thousands)

	Common Stock	Additional	Unallocated common stock held by the employee stock ownership plan	Retained	Accumulated other	Treasury	Total	
	Shares	Par Value	paid-in capital	earnings	income	stock	stockholders equity	
Balance at December 31, 2009	45,628,211	\$ 456	\$ 202,479	\$ (15,807)	\$ 212,196	\$ 12,145	\$ (19,929)	\$ 391,540
Comprehensive income:								
Net income				9,962				9,962
Change in accumulated comprehensive income, net of tax of \$3,541					5,685			5,685
Total comprehensive income								15,647
ESOP shares allocated or committed to be released			144	440				584
Stock compensation expense			2,215					2,215
Additional tax benefit on equity awards			231					231
Exercise of stock options				(26)		163		137
Dividends declared (\$0.14 per share)				(2,410)				(2,410)
Issuance of restricted stock	4,400					(5,347)		(5,347)

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Treasury stock  
(average cost of  
\$12.00 per share)

Balance at  
September 30,  
2010

45,632,611 \$ 456 \$ 205,069 \$ (15,367) \$ 219,722 \$ 17,830 \$ (25,113) \$ 402,597

Balance at  
December 31,  
2010

45,632,611 \$ 456 \$ 205,863 \$ (15,188) \$ 222,655 \$ 10,910 \$ (27,979) \$ 396,717

Comprehensive  
income:

Net income

13,013

13,013

Change in  
accumulated  
comprehensive  
income, net of  
tax of \$5,671

8,510

8,510

Total  
comprehensive  
income

21,523

ESOP shares  
allocated or  
committed to be  
released

150

438

588

Stock  
compensation  
expense

2,282

2,282

Additional tax  
benefit on equity  
awards

186

186

Exercise of stock  
options

(1)

6

5

Dividends  
declared (\$0.17  
per share)

(2,805)

(2,805)

Treasury stock  
(average cost of  
\$13.47 per share)

(28,242)

(28,242)

Balance at  
September 30,  
2011

45,632,611 \$ 456 \$ 208,481 \$ (14,750) \$ 232,862 \$ 19,420 \$ (56,215) \$ 390,254

See accompanying notes to the unaudited consolidated financial statements.

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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 Nine months ended September 30, 2011, and 2010  
 (Unaudited) (In thousands)

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income	\$ 13,013	\$ 9,962
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,117	8,126
ESOP and stock compensation expense	2,870	2,799
Depreciation	1,566	1,313
Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees	967	793
Amortization of intangible assets	74	229
Income on bank owned life insurance	(2,235)	(1,502)
Gain on sale of premises and equipment and other real estate owned	(84)	(197)
Net gain on sale of loans held-for-sale	(25)	(18)
Proceeds from sale of loans held-for-sale	7,739	2,404
Origination of loans held-for-sale	(8,099)	(3,145)
Gain on securities transactions, net	(2,373)	(1,568)
Net impairment losses on securities recognized in earnings	409	154
Net purchases of trading securities	(235)	(102)
Decrease (increase) in accrued interest receivable	69	(14)
Increase in other assets	(1,660)	(19)
Increase in accrued expenses and other liabilities	114	1,242
Net cash provided by operating activities	17,227	20,457
Cash flows from investing activities:		
Net increase in loans receivable	(140,045)	(76,731)
Redemptions (purchase) of Federal Home Loan Bank of New York stock, net	253	(663)
Purchases of securities available-for-sale	(423,400)	(597,759)
Principal payments and maturities on securities available-for-sale	280,713	365,339
Principal payments and maturities on securities held-to-maturity	932	1,292
Proceeds from sale of securities available-for-sale	140,724	161,010
Purchase of bank owned life insurance		(28,781)
Proceeds from sale of other real estate owned	571	400
Proceeds from the sale of premises and equipment		394
Purchases and improvements of premises and equipment	(3,769)	(3,332)
Net cash used in investing activities	(144,021)	(178,831)
Cash flows from financing activities:		
Net increase in deposits	81,985	95,508
Dividends paid	(2,805)	(2,410)
Exercise of stock options	5	137
Purchase of treasury stock	(28,242)	(5,347)
Additional tax benefit on equity awards	186	231

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Increase in advance payments by borrowers for taxes and insurance	2,208	1,072
Repayments under capital lease obligations	(161)	(138)
Proceeds from borrowings	467,864	235,501
Repayments related to borrowings	(404,594)	(172,680)
Net cash provided by financing activities	116,446	151,874
Net decrease in cash and cash equivalents	(10,348)	(6,500)
Cash and cash equivalents at beginning of period	43,852	42,544
Cash and cash equivalents at end of period	\$ 33,504	\$ 36,044
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 19,059	\$ 18,625
Income taxes	7,853	7,839
Other transactions:		
Loans charged-off, net	1,433	2,611
Other real estate owned charged-off	26	146
Transfers to other real estate owned	376	900
(Decrease) increase in due to broker for purchases of securities available-for-sale	(57,007)	20,013

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****NORTHFIELD BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****Note 1 Basis of Presentation**

The consolidated financial statements are comprised of the accounts of Northfield Bancorp, Inc., and its wholly-owned subsidiary, Northfield Bank (the Bank), and the Bank's wholly-owned significant subsidiaries, NSB Services Corp. and NSB Realty Trust (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and nine month period ended September 30, 2011, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2011. Certain prior year amounts have been reclassified to conform to the current year presentation.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010, of Northfield Bancorp, Inc. as filed with the SEC.

**Note 2 Securities Available-for-Sale**

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at September 30, 2011, and December 31, 2010 (in thousands):

		<b>September 30, 2011</b>		
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Mortgage-backed securities:				
Pass-through certificates:				
Government sponsored enterprises (GSE)	\$ 512,414	\$ 25,905	\$	\$ 538,319
Non-GSE	9,222		1,051	8,171
Real estate mortgage investment conduits (REMICs):				
GSE	480,916	5,803	140	486,579
Non-GSE	35,019	2,127	33	37,113
	1,037,571	33,835	1,224	1,070,182
Other securities:				
Equity investments-mutual funds	8,408	68		8,476
Corporate bonds	127,251	584	424	127,411
	135,659	652	424	135,887
Total securities available-for-sale	\$ 1,173,230	\$ 34,487	\$ 1,648	\$ 1,206,069



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		<b>December 31, 2010</b>		
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Mortgage-backed securities:				
Pass-through certificates:				
Government sponsored enterprises (GSE)	\$ 342,316	\$ 13,479	\$	\$ 355,795
Non-GSE	27,801	814	737	27,878
Real estate mortgage investment conduits (REMICs):				
GSE	622,582	3,020	3,525	622,077
Non-GSE	65,766	3,674	51	69,389
	1,058,465	20,987	4,313	1,075,139
Other securities:				
Equity investments-mutual funds	12,437	31	115	12,353
GSE bonds	34,988	45		35,033
Corporate bonds	119,765	2,146	123	121,788
	167,190	2,222	238	169,174
<b>Total securities available-for-sale</b>	<b>\$ 1,225,655</b>	<b>\$ 23,209</b>	<b>\$ 4,551</b>	<b>\$ 1,244,313</b>

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at September 30, 2011 (in thousands):

	<b>Amortized cost</b>	<b>Estimated fair value</b>
<b>Available-for-sale</b>		
Due in one year or less	\$ 45,049	\$ 45,255
Due after one year through five years	82,202	82,156
	\$ 127,251	\$ 127,411

Expected maturities on mortgage-backed securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

For the three and nine months ended September 30, 2011, the Company had gross proceeds of \$26.3 million and \$140.7 million on sales of securities available-for-sale with gross realized gains of approximately \$296,000 and \$2.8 million, and gross realized losses of \$0 and \$0, respectively. For the three and nine months ended September 30, 2010, the Company had gross proceeds of \$64.9 million and \$161.0 million on sales of securities available-for-sale with gross realized gains of approximately \$117,000 and \$1.2 million, and gross realized losses of approximately \$4,000 and \$4,000, respectively. The Company recognized \$(567,000) and \$(428,000) in losses on its trading securities portfolio during the three and nine months ended September 30, 2011, respectively. The Company recognized \$307,000 and \$397,000 in gains on its trading securities portfolio during the three and nine months ended September 30, 2010, respectively. The Company recognized other-than-temporary impairment charges of \$0 and

\$409,000 against earnings during the three and nine months ended September 30, 2011, related to one equity investment in a mutual fund and two private label mortgage-backed securities. The Company recognized the credit component of \$409,000 in earnings and the non-credit component of \$743,000 as a component of accumulated other comprehensive income, net of tax for the nine months ended September 30, 2011. The Company recognized other-than-temporary impairment charges of \$962,000 during the three and nine months ended September 30, 2010, related to one private label mortgage-backed security. The Company recognized the credit component of \$154,000 in earnings and the non-credit component of \$808,000 as a component of accumulated other comprehensive income, net of tax.

Activity related to the credit component recognized in earnings on debt securities for which a portion of other-than-temporary impairment was recognized in accumulated other comprehensive income for the three and nine months ended September 30, 2011 and 2010, is as follows (in thousands):

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	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ 578	\$ 176	\$ 330	\$ 176
Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized		154	248	154
Cumulative pre-tax credit losses, end of period	\$ 578	\$ 330	\$ 578	\$ 330

Gross unrealized losses on mortgage-backed securities, equity investments, and corporate bonds available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011, and December 31, 2010, were as follows (in thousands):

	<b>Less than 12 months</b>		<b>September 30, 2011 12 months or more</b>		<b>Total</b>	
	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>
Mortgage-backed securities: Pass-through certificates: Government sponsored enterprises (GSE)	\$	\$	\$	\$ 39	\$	\$ 39
Non-GSE			1,051	8,171	1,051	8,171
Real estate mortgage investment conduits (REMICs):						
GSE	39	17,731	101	25,568	140	43,299
Non-GSE			33	900	33	900
Corporate bonds	34	28,992	390	13,343	424	42,335
Total	\$ 73	\$ 46,723	\$ 1,575	\$ 48,021	\$ 1,648	\$ 94,744

	<b>Less than 12 months</b>		<b>December 31, 2010 12 months or more</b>		<b>Total</b>	
	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>
Mortgage-backed securities: Pass-through certificates: Non-GSE	\$	\$	\$ 737	\$ 10,126	\$ 737	\$ 10,126
Real estate mortgage investment conduits (REMICs):						
GSE	3,525	344,971			3,525	344,971
Non-GSE			51	1,238	51	1,238
Corporate bonds	123	13,880			123	13,880
	115	4,884			115	4,884

Equity Investments mutual  
funds

Total	\$ 3,763	\$ 363,735	\$ 788	\$ 11,364	\$ 4,551	\$ 375,099
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Included in the above available-for-sale security amounts at September 30, 2011, was one pass-through non-GSE mortgage-backed security in a continuous unrealized loss position of greater than twelve months that was rated less than investment grade at September 30, 2011. The security had an estimated fair value of \$5.2 million (amortized cost of \$6.0 million), was rated Caa2, and had the following underlying collateral characteristics: 83% originated in 2004, and 17% originated in 2005. The rating of the security detailed above represents the lowest rating for the security received from the rating agencies of Moody's, Standard & Poor's, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of this security. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for this security. As a result of management's evaluation of this security, the Company recognized during the nine months ended September 30, 2011, other than temporary impairment of \$593,000. Since management does not have the intent to sell the security and it is more likely than not that the Company will not be required to sell the security, before its anticipated recovery (which may be maturity), the credit component of \$139,000 was recognized in earnings, and the non credit component of \$454,000 was recorded as a component of accumulated other comprehensive income, net of tax.

In addition to the one pass-through non-GSE mortgage-backed security discussed above, the Company had one additional private label security that was rated less than investment grade at September 30, 2011. The security

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had an estimated fair value of \$3.0 million (amortized cost of \$3.2 million), was rated C, and was supported by collateral which was originated in 2006. The rating of the security detailed above represents the lowest rating for the security received from the rating agencies of Moody's, Standard & Poor's, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of this security. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for this security. As a result of management's evaluation of this security, the Company recognized during the nine months ended September 30, 2011, other than temporary impairment of \$398,000. Since management does not have the intent to sell the security and it is more likely than not that the Company will not be required to sell the security, before its anticipated recovery (which may be maturity), the credit component of \$109,000 was recognized in earnings, and the non credit component of \$289,000 was recorded as a component of accumulated other comprehensive income, net of tax.

The Company held one REMIC non-GSE mortgage-backed security that was in a continuous unrealized loss position of greater than twelve months, and three corporate bonds, two pass-through GSE mortgage-backed securities, and five REMIC mortgage-backed securities issued or guaranteed by GSEs, that were in an unrealized loss position of less than twelve months, and rated investment grade at September 30, 2011. The declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not provide sufficient protections to our contractual principal and interest. As a result, there is a risk that significant other-than-temporary impairments may occur in the future given the current economic environment.

**Note 3 Net Loans Held-for-Investment**

Net loans held-for-investment are as follows (in thousands):

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Real estate loans:		
Commercial mortgage	\$ 340,048	\$ 339,321
One- to- four family residential mortgage	75,334	78,032
Construction and land	25,080	35,054
Multifamily	420,025	283,588
Home equity and lines of credit	30,103	28,125
Total real estate loans	890,590	764,120
Commercial and industrial loans	13,715	17,020
Insurance premium loans	57,840	44,517
Other loans	1,760	1,062
Total commercial and industrial, insurance premium, and other loans	73,315	62,599
Total loans held-for-investment	963,905	826,719
Deferred loan cost, net	1,352	872
Loans held-for-investment, net	965,257	827,591
Allowance for loan losses	(25,503)	(21,819)

Net loans held-for-investment	\$	939,754	\$	805,772
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Loans held-for-sale amounted to \$1.6 million and \$1.2 million at September 30, 2011, and December 31, 2010, respectively. All loans held for sale are one- to four-family residential mortgage loans.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

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The Company, through its principal subsidiary, the Bank, serviced \$44.5 million and \$52.1 million of loans at September 30, 2011, and December 31, 2010, respectively, for Freddie Mac. These one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At September 30, 2011, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. Servicing of loans for others does not have a material effect on our financial position or results of operations.

Activity in the allowance for loan losses is as follows (in thousands):

	<b>At or for the nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Beginning balance	\$ 21,819	\$ 15,414
Provision for loan losses	5,117	8,126
Charge-offs, net	(1,433)	(2,611)
Ending balance	\$ 25,503	\$ 20,929

The following tables set forth activity in our allowance for loan losses, by loan type, for the nine months ended September 30, 2011, and the year ended December 31, 2010, respectively. The following tables also detail the amount of loans held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of September 30, 2011 and December 31, 2010.

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	September 30, 2011										
	Real Estate				Home Equity						
	One -to- Four Construction and				Lines of Commercial Insurance and						
	Commercial	Family	Land	Multifamily	Credit	Industrial	Premium	Other	Unallocated	Total	
<b>Allowance for loan losses:</b>											
Beginning Balance, December 31, 2010	\$ 12,654	\$ 570	\$ 1,855	\$ 5,137	\$ 242	\$ 719	\$ 111	\$ 28	\$ 503	\$ 21,819	
Charge-offs	(1,228)			(63)		(196)	(26)			(1,513)	
Recoveries	27					23	30			80	
Provisions	2,546	237	(547)	1,762	118	82	30	17	872	5,117	
Ending Balance, September 30, 2011	\$ 13,999	\$ 807	\$ 1,308	\$ 6,836	\$ 360	\$ 628	\$ 145	\$ 45	\$ 1,375	\$ 25,503	
Ending balance, September 30, 2011: individually evaluated for impairment	\$ 2,634	\$ 369	\$ 323	\$ 119	\$	\$	\$	\$	\$	\$ 3,445	
Ending balance, September 30, 2011: collectively evaluated for impairment	\$ 11,365	\$ 438	\$ 985	\$ 6,717	\$ 360	\$ 628	\$ 145	\$ 45	\$ 1,375	\$ 22,058	
<b>Loans held-for-investment, net:</b>											
Ending Balance, September 30, 2011	\$ 340,100	\$ 75,423	\$ 25,099	\$ 420,977	\$ 30,339	\$ 13,719	\$ 57,840	\$ 1,760	\$	\$ 965,257	
Ending balance, September 30, 2011: individually evaluated for impairment	\$ 50,347	\$ 3,613	\$ 2,704	\$ 3,172	\$	\$ 2,060	\$	\$	\$	\$ 61,896	
Ending balance, September 30, 2011:											

collectively evaluated  
for impairment \$ 289,753 \$ 71,810 \$ 22,395 \$ 417,805 \$ 30,339 \$ 11,659 \$ 57,840 \$ 1,760 \$ 903,361

	December 31, 2010											
	Real Estate				Home Equity			Commercial Insurance				Unallocated
	One	Four	Construction	and	Multifamily	Credit	Industrial	Premium	Other			
	Commercial	Family	Land	and								
<b>Allowance for loan losses:</b>												
Beginning Balance, December 31, 2009	\$ 8,403	\$ 163	\$ 2,409	\$ 1,866	\$ 210	\$ 1,877	\$ 101	\$ 34	\$ 351	\$ 15,414		
Charge-offs	(987)		(443)	(2,132)		(36)	(101)			(3,699)		
Recoveries							20			20		
Provisions	5,238	407	(111)	5,403	32	(1,122)	91	(6)	152	10,084		
Ending Balance, December 31, 2010	\$ 12,654	\$ 570	\$ 1,855	\$ 5,137	\$ 242	\$ 719	\$ 111	\$ 28	\$ 503	\$ 21,819		
Ending balance, December 31, 2010: individually evaluated for impairment	\$ 2,129	\$ 369	\$ 36	\$ 121	\$	\$	\$	\$	\$	\$ 2,655		
Ending balance, December 31, 2010: collectively evaluated for impairment	\$ 10,525	\$ 201	\$ 1,819	\$ 5,016	\$ 242	\$ 719	\$ 111	\$ 28	\$ 503	\$ 19,164		
<b>Loans held-for-investment, net:</b>												
Ending balance, December 31, 2010	\$ 339,259	\$ 78,109	\$ 35,077	\$ 284,199	\$ 28,337	\$ 17,032	\$ 44,517	\$ 1,061	\$	\$ 827,591		
Ending balance, December 31, 2010: individually evaluated for impairment	\$ 51,324	\$ 1,750	\$ 4,562	\$ 5,083	\$	\$ 500	\$	\$	\$	\$ 63,219		

Ending balance,  
December 31, 2010:  
collectively evaluated  
for impairment

\$ 287,935	\$ 76,359	\$ 30,515	\$ 279,116	\$ 28,337	\$ 16,532	\$ 44,517	\$ 1,061	\$	\$ 764,372
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The Company monitors the credit quality of its loans by reviewing certain key credit quality indicators. Management has determined that loan-to-value ratios (at period end) and internally assigned credit risk ratings by loan type are the key credit quality indicators that best help management monitor the credit quality of the Company's loans. Loan-to-value (LTV) ratios used by management in monitoring credit quality are based on current period loan balances and original values at time of origination (unless a more current appraisal has been obtained). In calculating the provision for loan losses, management has determined that commercial real estate loans and multifamily loans having loan-to-value ratios of less than 35%, and one- to four-family loans having loan-to-value ratios of less than 60%, require no allowance for loan losses at each period end. If any such loans were to default, requiring the Company to repossess the collateral, no loss would be expected as the Company would be considered well secured.

The Company maintains a credit risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers are required to assign a credit risk rating to each loan in their portfolio at origination. When the lending officer learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Monthly, management presents monitored assets to the loan committee. In addition, the Company engages a third party independent loan reviewer that performs semi-annual reviews of a sample of loans, validating the credit risk ratings assigned to such loans. The credit risk ratings play an important role in the establishment of the loan loss provision and in confirming the adequacy of the allowance for loan losses. After determining the general reserve loss factor for each portfolio segment, the portfolio segment balance collectively evaluated for impairment is multiplied by the general reserve loss factor for the respective portfolio segment in order to determine the general reserve. Loans that have an internal credit rating of special mention or substandard are multiplied by a multiple of the general reserve loss factors for each portfolio segment, in order to determine the general reserve.

When assigning a risk rating to a loan, management utilizes the Bank's internal nine-point credit risk rating system.

1. Strong
2. Good
3. Acceptable
4. Adequate
5. Watch
6. Special Mention
7. Substandard
8. Doubtful
9. Loss

Loans rated 1 through 5 are considered pass ratings. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable based on current circumstances. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets which do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated special mention.



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The following tables detail the recorded investment of loans held-for-investment, net of deferred fees and costs, by loan type and credit quality indicator at September 30, 2011, and December 31, 2010 (in thousands).

**At September 30, 2011**

	Real Estate						Home Commercial					To
	Commercial		One- to		Construction and Land	Multifamily		Lines of Credit	Industrial	Premium	Other	
	< 35%	≥ 35%	< 60%	≥ 60%		< 35%	≥ 35%					
	LTV	LTV	LTV	LTV	LTV	LTV						
al Risk Rating	\$ 30,424	\$ 238,458	\$ 43,855	\$ 26,161	\$ 18,024	\$ 21,358	\$ 383,513	\$ 28,465	\$ 9,587	\$ 57,570	\$ 1,760	\$ 85
al Mention	17	14,365	910		707		11,416	49	854	167		2
andard	2,564	54,272	826	3,671	6,368	558	4,132	1,825	3,278	103		7
loans or-investment,	\$ 33,005	\$ 307,095	\$ 45,591	\$ 29,832	\$ 25,099	\$ 21,916	\$ 399,061	\$ 30,339	\$ 13,719	\$ 57,840	\$ 1,760	\$ 96

**At December 31, 2010**

	Real Estate						Home Commercial					To
	Commercial		One- to		Construction and Land	Multifamily		Lines of Credit	Industrial	Premium	Other	
	< 35%	≥ 35%	< 60%	≥ 60%		< 35%	≥ 35%					
	LTV	LTV	LTV	LTV	LTV	LTV						
al Risk Rating	\$ 24,826	\$ 248,759	\$ 49,928	\$ 22,247	\$ 24,767	\$ 18,880	\$ 256,948	\$ 28,042	\$ 14,110	\$ 44,149	\$ 1,061	\$ 73
al Mention	1,613	12,108	1,206	1,750	1,128		5,233	55	776	239		2
andard	1,385	50,568	623	2,355	9,182	504	2,634	240	2,146	129		6
loans or-investment,	\$ 27,824	\$ 311,435	\$ 51,757	\$ 26,352	\$ 35,077	\$ 19,384	\$ 264,815	\$ 28,337	\$ 17,032	\$ 44,517	\$ 1,061	\$ 82

Included in loans held-for-investment, net, are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these nonaccrual loans was \$51.8 million and \$59.3 million, at September 30, 2011, and December 31, 2010, respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.



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These non-accrual amounts included loans deemed to be impaired of \$43.5 million and \$52.0 million at September 30, 2011, and December 31, 2010, respectively. Loans on non-accrual status with principal balances less than \$500,000, and therefore not meeting the Company's definition of an impaired loan, amounted to \$8.3 million and \$7.3 million at September 30, 2011, and December 31, 2010, respectively. Loans past due 90 days or more and still accruing interest were \$1.6 million at both September 30, 2011, and December 31, 2010 and consisted of loans that are considered well secured and in the process of collection.

The following tables set forth the detail, and delinquency status, of non-performing loans (non-accrual loans and loans past due 90 or more and still accruing), net of deferred fees and costs, at September 30, 2011, and December 31, 2010 (in thousands).

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At September 30, 2011

## Non-Accruing Loans

	0-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total	90 Days or More Past Due and Accruing	Total Non- Performing Loans
Real estate loans:						
Commercial						
LTV < 35%						
Special Mention	\$	\$	\$	\$	\$	\$
Substandard	353		2,210	2,563		2,563
Total	353		2,210	2,563		2,563
LTV ≥ 35%						
Special Mention						
Substandard	21,450	1,608	15,009	38,067		38,067
Total	21,450	1,608	15,009	38,067		38,067
Total commercial	21,803	1,608	17,219	40,630		40,630
One-to-four family residential						
LTV < 60%						
Special Mention	151	174	184	509		509
Substandard	213		198	411		411
Total	364	174	382	920		920
LTV ≥ 60%						
Substandard	189	387	1,151	1,727		1,727
Total	189	387	1,151	1,727		1,727
Total one-to-four family residential	553	561	1,533	2,647		2,647
Construction and land						
Special Mention						
Substandard	2,081		875	2,956		2,956
Total construction and land	2,081		875	2,956		2,956

Multifamily LTV < 35% Substandard			558	558		558
Total LTV ≥ 35% Substandard			558	558		558
Total			2,405	2,405		2,405
Total multifamily			2,963	2,963		2,963
Home equity and lines of credit Pass Substandard			334	334	1,491	1,825
Total home equity and lines of credit			334	334	1,491	1,825
Commercial and industrial loans Special Mention Substandard	558	91	620 896	620 1,545	104	724 1,545
Total commercial and industrial loans	558	91	1,516	2,165	104	2,269
Insurance premium loans Substandard			103	103		103
Total insurance premium loans			103	103		103
Total non-performing loans, September 30, 2011	\$ 24,995	\$ 2,260	\$ 24,543	\$ 51,798	\$ 1,595	\$ 53,393

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	<b>At December 31, 2010</b>					
	<b>Non-Accruing Loans</b>					
	<b>0-29 Days Past Due</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total</b>	<b>90 Days or More Past Due and Accruing</b>	<b>Total Non- Performing Loans</b>
Real estate loans:						
Commercial						
LTV < 35%						
Special Mention	\$ 29	\$	\$	\$ 29	\$	\$ 29
Total	29			29		29
LTV ≥ 35%						
Substandard	13,650	15,050	17,659	46,359		46,359
Total	13,650	15,050	17,659	46,359		46,359
Total commercial	13,679	15,050	17,659	46,388		46,388
One-to-four family residential						
LTV < 60%						
Special Mention		179	99	278	86	364
Substandard	135		197	332	291	623
Total	135	179	296	610	377	987
LTV ≥ 60%						
Substandard		591	74	665	731	1,396
Total		591	74	665	731	1,396
Total one-to-four family residential	135	770	370	1,275	1,108	2,383
Construction and land						
Special Mention					404	404
Substandard	2,152	1,860	1,110	5,122		5,122
Total construction and land	2,152	1,860	1,110	5,122	404	5,526
Multifamily						



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LTV < 35%							
Substandard		504		504			504
Total		504		504			504
LTV ≥ 35%							
Special Mention	1,824			1,824			1,824
Substandard		423	2,112	2,535			2,535
Total	1,824	423	2,112	4,359			4,359
Total multifamily	1,824	927	2,112	4,863			4,863
Home equity and lines of credit							
Substandard			181	181	59		240
Total home equity and lines of credit			181	181	59		240
Commercial and industrial loans							
Pass					38		38
Special Mention			100	100			100
Substandard		267	956	1,223			1,223
Total commercial and industrial loans		267	1,056	1,323	38		1,361
Insurance premium loans							
Substandard			129	129			129
Total insurance premium loans			129	129			129
Total non-performing loans, December 31, 2010	\$ 17,790	\$ 18,874	\$ 22,617	\$ 59,281	\$ 1,609	\$ 60,890	

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The following tables set forth the detail and delinquency status of loans held-for-investment, net of deferred fees and costs, by performing and non-performing loans at September 30, 2011, and December 31, 2010 (in thousands).

	<b>September 30, 2011</b>				
	<b>Performing (Accruing) Loans</b>			<b>Non- Performing Loans</b>	<b>Total Loans Receivable, net</b>
	<b>0-29 Days Past Due</b>	<b>30-89 Days Past Due</b>	<b>Total</b>		
Real estate loans:					
Commercial LTV < 35%					
Pass	\$ 30,425	\$	\$ 30,425	\$	\$ 30,425
Special Mention		17	17		17
Substandard				2,563	2,563
Total	30,425	17	30,442	2,563	33,005
LTV ≥ 35%					
Pass	231,383	7,075	238,458		238,458
Special Mention	11,274	3,091	14,365		14,365
Substandard	13,794	2,411	16,205	38,067	54,272
Total	256,451	12,577	269,028	38,067	307,095
Total commercial	286,876	12,594	299,470	40,630	340,100
One-to-four family residential					
LTV < 60%					
Pass	40,505	3,350	43,855		43,855
Special Mention		400	400	509	909
Substandard	131	285	416	411	827
Total	40,636	4,035	44,671	920	45,591
LTV ≥ 60%					
Pass	25,271	890	26,161		26,161
Special Mention					
Substandard	1,944		1,944	1,727	3,671
Total	27,215	890	28,105	1,727	29,832
Total one-to-four family residential	67,851	4,925	72,776	2,647	75,423
Construction and land					
Pass	14,952	3,072	18,024		18,024
Special Mention	707		707		707
Substandard	3,412		3,412	2,956	6,368

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Total construction and land	19,071	3,072	22,143	2,956	25,099
Multifamily					
LTV < 35%					
Pass	21,358		21,358		21,358
Substandard				558	558
Total	21,358		21,358	558	21,916
LTV ≥ 35%					
Pass	382,290	1,223	383,513		383,513
Special Mention	6,262	5,154	11,416		11,416
Substandard	98	1,629	1,727	2,405	4,132
Total	388,650	8,006	396,656	2,405	399,061
Total multifamily	410,008	8,006	418,014	2,963	420,977
Home equity and lines of credit					
Pass	28,365	100	28,465		28,465
Special Mention	49		49		49
Substandard				1,825	1,825
Total home equity and lines of credit	28,414	100	28,514	1,825	30,339
Commercial and industrial loans					
Pass	8,059	1,528	9,587		9,587
Special Mention	25	105	130	724	854
Substandard	1,733		1,733	1,545	3,278
Total commercial and industrial loans	9,817	1,633	11,450	2,269	13,719
Insurance premium loans					
Pass	57,130	440	57,570		57,570
Special Mention		167	167		167
Substandard				103	103
Total insurance premium loans	57,130	607	57,737	103	57,840
Other loans					
Pass	1,724	36	1,760		1,760
Total other loans	1,724	36	1,760		1,760

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\$ 880,891      \$ 30,973      \$ 911,864      \$ 53,393      \$ 965,257

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	<b>December 31, 2010</b>				
	<b>Performing (Accruing) Loans</b>			<b>Non- Performing Loans</b>	<b>Total Loans Receivable, net</b>
	<b>0-29 Days Past Due</b>	<b>30-89 Days Past Due</b>	<b>Total</b>		
Real estate loans:					
Commercial					
LTV < 35%					
Pass	\$ 24,823	\$ 3	\$ 24,826	\$	\$ 24,826
Special Mention	1,068	516	1,584	29	1,613
Substandard		1,385	1,385		1,385
Total	25,891	1,904	27,795	29	27,824
LTV ≥ 35%					
Pass	242,131	6,628	248,759		248,759
Special Mention	11,670	438	12,108		12,108
Substandard	4,209		4,209	46,359	50,568
Total	258,010	7,066	265,076	46,359	311,435
Total commercial	283,901	8,970	292,871	46,388	339,259
One-to-four family residential					
LTV < 60%					
Pass	48,930	998	49,928		49,928
Special Mention	83	759	842	364	1,206
Substandard				623	623
Total	49,013	1,757	50,770	987	51,757
LTV ≥ 60%					
Pass	21,429	818	22,247		22,247
Special Mention	1,750		1,750		1,750
Substandard	959		959	1,396	2,355
Total	24,138	818	24,956	1,396	26,352
Total one-to-four family residential	73,151	2,575	75,726	2,383	78,109
Construction and land					
Pass	24,767		24,767		24,767
Special Mention	225	499	724	404	1,128
Substandard	4,060		4,060	5,122	9,182
Total construction and land	29,052	499	29,551	5,526	35,077
Multifamily					

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LTV < 35%					
Pass	18,656	224	18,880		18,880
Substandard				504	504
Total	18,656	224	18,880	504	19,384
LTV ≥ 35%					
Pass	251,129	5,819	256,948		256,948
Special Mention	3,258	151	3,409	1,824	5,233
Substandard	99		99	2,535	2,634
Total	254,486	5,970	260,456	4,359	264,815
Total multifamily	273,142	6,194	279,336	4,863	284,199
Home equity and lines of credit					
Pass	27,780	262	28,042		28,042
Special Mention	55		55		55
Substandard				240	240
Total home equity and lines of credit	27,835	262	28,097	240	28,337
Commercial and industrial loans					
Pass	13,626	446	14,072	38	14,110
Special Mention	586	90	676	100	776
Substandard	923		923	1,223	2,146
Total commercial and industrial loans	15,135	536	15,671	1,361	17,032
Insurance premium loans					
Pass	43,728	421	44,149		44,149
Special Mention		239	239		239
Substandard				129	129
Total insurance premium loans	43,728	660	44,388	129	44,517
Other loans					
Pass	959	102	1,061		1,061
Total other loans	959	102	1,061		1,061
	\$ 746,903	\$ 19,798	\$ 766,701	\$ 60,890	\$ 827,591

The following tables summarize impaired loans as of September 30, 2011, and December 31, 2010 (in thousands):

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	<b>At September 30, 2011</b>		
	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>
<b>With No Related Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV < 35%			
Substandard	\$ 1,721	\$ 1,736	\$
LTV ≥ 35%			
Special Mention	1,900	1,909	
Substandard	33,968	35,004	
One-to-four family residential			
LTV < 60%			
Pass	635	635	
Special Mention	151	151	
LTV > 60%			
Substandard	1,077	1,077	
Construction and land			
Special Mention	72	72	
Substandard	367	376	
Multifamily			
LTV < 35%			
Substandard	491	491	
LTV ≥ 35%			
Substandard	1,556	1,556	
Commercial and industrial			
Special Mention	661	661	
Substandard	1,399	1,399	
<b>With an Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV ≥ 35%			
Special Mention	664	691	(47)
Substandard	12,095	12,451	(2,587)
One-to-four family residential			
LTV ≥ 60%			
Substandard	1,750	1,750	(369)
Construction and land			
Substandard	2,265	2,726	(323)
Multifamily			
LTV ≥ 35%			
Substandard	1,124	1,632	(119)
<b>Total:</b>			
Real estate loans:			
Commercial	50,348	51,791	(2,634)
One-to-four family residential	3,613	3,613	(369)
Construction and land	2,704	3,174	(323)

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Multifamily	3,171	3,679	(119)
Commercial and industrial loans	2,060	2,060	
	\$ 61,896	\$ 64,317	\$ (3,445)



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	<b>At December 31, 2010</b>		
	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>
<b>With No Related Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV < 35%			
Special Mention	\$ 661	\$ 661	\$
LTV ≥ 35%			
Special Mention	4,807	4,807	
Substandard	25,590	26,870	
Construction and land			
Substandard			
	2,152	2,416	
Multifamily			
LTV < 35%			
Substandard	504	504	
LTV ≥ 35%			
Special Mention	3,392	5,242	
<b>With an Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV ≥ 35%			
Substandard	20,766	21,782	(2,129)
One-to-four family residential			
LTV ≥ 60%			
Special Mention	1,750	1,750	(369)
Construction and land			
Substandard			
	2,410	3,079	(36)
Multifamily			
LTV ≥ 35%			
Substandard	1,187	1,632	(121)
<b>Total:</b>			
Real estate loans			
Commercial	51,824	54,120	(2,129)
One-to-four family residential	1,750	1,750	(369)
Construction and land	4,562	5,495	(36)
Multifamily	5,083	7,378	(121)
	\$ 63,219	\$ 68,743	\$ (2,655)

Included in the table above at September 30, 2011, are loans with carrying balances of \$37.9 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Included in the table above at December 31, 2010, are loans with carrying balances of \$24.8 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Loans not written down by charge-offs or specific reserves at September 30, 2011, and December 31, 2010, are considered to have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans.

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The average recorded balance of impaired loans for the nine months ended September 30, 2011 and 2010, was \$62.6 million and \$52.0 million, respectively. The Company recorded \$246,000 and \$1.9 million of interest income on impaired loans for the three and nine months ended September 30, 2011, respectively, compared to

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\$782,000 and \$1.9 million of interest income on impaired loans for the three and nine months ended September 30, 2010, respectively.

The following tables summarize loans that were modified in a troubled debt restructuring during the nine months ended September 30, 2011.

	Number of Relationships	Nine months ended September 30, 2011	
		Pre-Modification Outstanding Recorded Investment (in thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings Commercial real estate loans Substandard	4	\$ 17,528	\$ 16,341
Construction and land Substandard	1	404	404
One -to- four Family Pass	2	635	635
Substandard Commercial and industrial loans Special Mention	1	42	41
Substandard	2	1,750	1,726
Total Troubled Debt Restructurings	11	\$ 20,510	\$ 19,298

The first commercial real estate loan amounting to \$3.1 million (pre-modification), which was supported by a retail center, was restructured during the nine months ended September 30, 2011. This loan was charged down by \$1.2 million as part of the restructuring. This loan also received a reduction to its interest rate. The second commercial real estate relationship consisted of five loans amounting to \$8.2 million (post-modification) which were restructured during the nine months ended September 30, 2011. This entire relationship included in the table above, received a reduction in rate and certain loan maturities in the relationship were extended. The third commercial real estate loan amounting to \$2.4 million was an owner occupied industrial building modified during the nine months ended September 30, 2011. This loan received a reduction to its interest rate. The fourth relationship amounting to \$3.8 million is supported by two properties and was comprised of an office building and a residential property modified during the nine months ended September 30, 2011. One of the loans received a reduction in the interest rate while the other loan was provided a forbearance agreement to allow the owner to liquidate the property.

The one construction and land loan amounting to \$404,000 received a forbearance agreement allowing the owner to liquidate the collateral during the nine months ended September 30, 2011.

The three one -to- four family loans amounting to \$786,000 each received a temporary reduction in interest rate during the nine months ended September 30, 2011.

The one commercial and industrial loan that was risk rated special mention was an unsecured line of credit in the amount of \$41,000 that matured during the nine months ended September 30, 2011. As the borrower was unable to repay the loan in full, the Company termed out the loan over five years at a reduced interest rate.

One commercial and industrial loan relationship that was risk rated substandard in the table above consisted of two loans amounting to \$1.6 million (pre-modification), which were supported by an office/warehouse, a commercial property, and a personal residence. This relationship was restructured to reduce the monthly payments for a 24-month period. The interest rates were reduced on both loans for a 24-month period, with no forgiveness of principal. The second commercial and industrial loan relationship that was restructured during the nine months ended September 30, 2011, consisted of one loan amounting to \$90,000 (pre-modification), secured by business assets. The Company

provided the borrower with six months to pay interest only beginning February 2011, in order to allow the borrower time to sell the business.

Management classifies all troubled debt restructurings as impaired loans. Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the estimated fair value of the collateral (less cost to sell), if the loan is collateral dependent, or the present value of the expected future cash flows, if the loan is

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not collateral dependent. Management performs a detailed evaluation of each impaired loan and generally obtains updated appraisals as part of the evaluation. In addition, management adjusts estimated fair values down to appropriately consider recent market conditions, our willingness to accept a lower sales price to effect a quick sale, and costs to dispose of any supporting collateral. Determining the estimated fair value of underlying collateral (and related costs to sell) can be difficult in illiquid real estate markets and is subject to significant assumptions and estimates. Management employs an independent third party expert in appraisal preparation and review to ascertain the reasonableness of updated appraisals. Projecting the expected cash flows under troubled debt restructurings is inherently subjective and requires, among other things, an evaluation of the borrower's current and projected financial condition. Actual results may be significantly different than our projections and our established allowance for loan losses on these loans, which could have a material effect on our financial results.

There have not been any loans that were restructured during the last twelve months that have subsequently defaulted.

**Note 4 Deposits**

Deposits are as follows (in thousands):

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Non-interest-bearing demand	\$ 148,275	\$ 111,413
Interest-bearing negotiable orders of withdrawal (NOW)	89,780	76,251
Savings-passbook, statement, tiered, and money market	675,494	632,143
Certificates of deposit	541,278	553,035
	<b>\$ 1,454,827</b>	<b>\$ 1,372,842</b>

Interest expense on deposit accounts is summarized for the periods indicated (in thousands):

	<b>Three months ended September 30, 2011</b>		<b>Nine months ended September 30, 2011</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Negotiable order of withdrawal, savings-passbook, statement, tiered, and money market	\$ 1,155	\$ 1,222	\$ 3,453	\$ 3,907
Certificates of deposit	1,956	1,975	5,946	6,624
	<b>\$ 3,111</b>	<b>\$ 3,197</b>	<b>\$ 9,399</b>	<b>\$ 10,531</b>

**Note 5 Equity Incentive Plan**

The following table is a summary of the Company's stock options outstanding as of September 30, 2011, and changes therein during the nine months then ended:

	<b>Number of Stock Options</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life (years)</b>
Outstanding December 31, 2010	2,072,540	\$ 3.22	\$ 9.94	8.09
Granted				
Forfeited				

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Exercised		(640)	3.22	9.94	
Outstanding	September 30, 2011	2,071,900	\$ 3.22	\$ 9.95	7.27
Exercisable	September 30, 2011	839,320	\$ 3.22	\$ 9.94	7.23

Expected future stock option expense related to the non-vested options outstanding as of September 30, 2011, is \$3.1 million over an average period of 2.3 years.

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The following is a summary of the status of the Company's restricted share awards as of September 30, 2011, and changes therein during the nine months then ended.

	<b>Number of Shares Awarded</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2010	653,880	\$ 9.97
Granted		
Vested	(165,050)	9.96
Forfeited		
Non-vested at September 30, 2011	488,830	\$ 9.97

Expected future stock award expense related to the non-vested restricted share awards as of September 30, 2011, is \$3.8 million over an average period of 2.3 years.

During the three and nine months ended September 30, 2011, the Company recorded \$748,000 and \$2.3 million of stock-based compensation related to the above plans, respectively. During the three and nine months ended September 30, 2010, the Company recorded \$716,000 and \$2.2 million of stock-based compensation related to the above plans, respectively.

**Note 6- Fair Value Measurements**

The following table presents the assets reported on the consolidated balance sheet at their estimated fair value as of September 30, 2011, and December 31, 2010, by level within the fair value hierarchy as required by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC). Financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.

Level 3 Inputs Significant unobservable inputs that reflect the Company's own assumptions that market participants would use in pricing the assets or liabilities.

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Significant**

	September 30, 2011	Quoted	Other	Significant
		Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>(in thousands)</b>				
Measured on a recurring basis:				
Assets:				
Investment securities:				
Available-for-sale:				
Mortgage-backed securities				
GSE	\$ 1,024,898	\$	\$ 1,024,898	\$
Non-GSE	45,284		45,284	
Corporate bonds	127,411		127,411	
Equities	8,476	8,476		
Total available-for-sale	1,206,069	8,476	1,197,593	
Trading securities	3,902	3,902		
Total	\$ 1,209,971	\$ 12,378	\$ 1,197,593	\$
Measured on a non-recurring basis:				
Assets:				
Impaired loans:				
Real estate loans:				
Commercial mortgage (CRE)	\$ 20,146	\$	\$	\$ 20,146
One- to- four family residential mortgage	1,727			1,727
Construction and land	1,837			1,837
Multifamily	497			497
Total impaired loans	24,207			24,207
Commercial and industrial loans	459			459
Other real estate owned (CRE)	34			34
Total	\$ 24,700	\$	\$	\$ 24,700

**Fair Value Measurements at Reporting Date  
Using:  
Significant**

Quoted	Other	Significant
Prices in		



<b>(in thousands)</b>	<b>December 31, 2010</b>	<b>Active Markets for Identical Assets (Level 1)</b>	<b>Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
Measured on a recurring basis:				
Assets:				
Investment securities:				
Available-for-sale:				
Mortgage-backed securities				
GSE	\$ 977,872	\$	\$ 977,872	\$
Non-GSE	97,267		97,267	
Corporate bonds	121,788		121,788	
GSE bonds	35,033		35,033	
Equities	12,353	12,353		
<b>Total available-for-sale</b>	<b>1,244,313</b>	<b>12,353</b>	<b>1,231,960</b>	
Trading securities	4,095	4,095		
<b>Total</b>	<b>\$ 1,248,408</b>	<b>\$ 16,448</b>	<b>\$ 1,231,960</b>	<b>\$</b>
Measured on a non-recurring basis:				
Assets:				
Impaired loans:				
Real estate loans:				
Commercial mortgage	\$ 26,951	\$	\$	\$ 26,951
One- to four-family residential mortgage	1,381			1,381
Construction and land	4,526			4,526
Multifamily	2,890			2,890
<b>Total impaired loans</b>	<b>35,748</b>			<b>35,748</b>
Other real estate owned (CRE)	171			171
<b>Total</b>	<b>\$ 35,919</b>	<b>\$</b>	<b>\$</b>	<b>\$ 35,919</b>

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**Available for Sale Securities:** The estimated fair values for mortgage-backed, GSE and corporate securities are obtained from an independent nationally recognized third-party pricing service. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. Broker/dealer quotes are utilized as well when such quotes are available and deemed representative of the market. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Company (Observable Inputs), and are therefore classified as Level 2 within the fair value hierarchy. The estimated fair values of equity securities, classified as Level 1, are derived from quoted market prices in active markets. Equity securities consist of mutual funds. There were no transfers of securities between Level 1 and Level 2 during the nine months ended September 30, 2011.

**Trading Securities:** Fair values are derived from quoted market prices in active markets. The assets consist of publicly traded mutual funds.

**Impaired Loans:** At September 30, 2011, and December 31, 2010, the Company had impaired loans with outstanding principal balances of \$26.4 million and \$38.4 million, which were recorded at their estimated fair value of \$20.6 million and \$35.7 million, respectively. The Company recorded net impairment charges of \$2.3 million and \$2.0 million for the nine months ended September 30, 2011, and 2010, respectively. For purposes of estimating fair value of impaired loans, management utilizes independent appraisals, if the loan is collateral dependent, adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date, or the present value of expected future cash flows for non-collateral dependent loans and troubled debt restructurings.

**Other Real Estate Owned:** At September 30, 2011, and December 31, 2010, the Company had assets acquired through foreclosure, or deed in lieu of foreclosure, of \$34,000 and \$171,000, respectively, recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through non-interest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. During the nine months ended September 30, 2011, the Company transferred a loan with a principal balance of \$422,000 and an estimated fair value, less costs to sell, of \$350,000 to other real estate owned. The Company charged the \$72,000 excess of the loan balance over fair value, less estimated costs to sell, to the allowance for loan losses, utilizing Level 3 inputs during the three months ended March 31, 2011, the property was sold during the nine months ended September 30, 2011. Subsequent valuation adjustments to other real estate owned (REO) totaled \$0 and \$72,00 for the three and nine months ended September 30, 2011 compared to \$0 and \$146,000 for the three and nine months ended September 30, 2010. Operating costs after acquisition are expensed.

**Fair Value of Financial Instruments**

The FASB ASC Topic for Financial Instruments requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not already discussed above:

***(a) Cash, Cash Equivalents, and Certificates of Deposit***

Cash and cash equivalents are short-term in nature with original maturities of three months or less; the carrying amount approximates fair value. Certificates of deposit having original terms of six-months or less; carrying value generally approximates fair value. Certificates of deposit with an original maturity of six months or greater, the fair value is derived from discounted cash flows.

***(b) Securities (Held to Maturity)***

The fair values for substantially all of our securities are obtained from an independent nationally recognized pricing service. The independent pricing service utilizes market prices of same or similar securities whenever such prices are available. Prices involving distressed sellers are not utilized in



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determining fair value. Where necessary, the independent third-party pricing service estimates fair value using models employing techniques such as discounted cash flow analyses. The assumptions used in these models typically include assumptions for interest rates, credit losses, and prepayments, utilizing market observable data where available.

***(c) Federal Home Loan Bank of New York Stock***

The fair value for Federal Home Loan Bank of New York stock is its carrying value, since this is the amount for which it could be redeemed and there is no active market for this stock.

***(d) Loans***

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction, land, multifamily, commercial and consumer. Each loan category is further segmented into amortizing and non-amortizing and fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of loans is estimated by discounting the future cash flows using current prepayment assumptions and current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This method of estimating fair value does not incorporate the exit price concept of fair value prescribed by the FASB ASC Topic for Fair Value Measurements and Disclosures.

***(e) Deposits***

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

***(f) Commitments to Extend Credit and Standby Letters of Credit***

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of off-balance-sheet commitments is insignificant and therefore not included in the following table.

***(g) Borrowings***

The fair value of borrowings is estimated by discounting future cash flows based on rates currently available for debt with similar terms and remaining maturity.

***(h) Advance Payments by Borrowers***

Advance payments by borrowers for taxes and insurance have no stated maturity; the fair value is equal to the amount currently payable.

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The estimated fair values of the Company's significant financial instruments at September 30, 2011, and December 31, 2010, are presented in the following table (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying value	Estimated Fair value	Carrying value	Estimated Fair value
Financial assets:				
Cash and cash equivalents	\$ 33,504	\$ 33,504	\$ 43,852	\$ 43,852
Trading securities	3,902	3,902	4,095	4,095
Securities available-for-sale	1,206,069	1,206,069	1,244,313	1,244,313
Securities held-to-maturity	4,130	4,324	5,060	5,273
Federal Home Loan Bank of New York stock, at cost	9,531	9,531	9,784	9,784
Net loans held-for-investment	939,754	977,196	805,772	818,295
Financial liabilities:				
Deposits	\$ 1,454,827	1,462,198	\$ 1,372,842	\$ 1,377,068
Borrowings	454,346	474,953	391,237	403,920
Advance payments by borrowers	2,901	2,901	693	693

**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

**Note 7 Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the period. For purposes of calculating basic earnings per share, weighted average common shares outstanding excludes unallocated employee stock ownership plan (ESOP) shares that have not been committed for release and unvested restricted stock.

Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if stock options and unvested shares of restricted stock were exercised and converted into common stock. These potentially dilutive shares are included in the weighted average number of shares outstanding for the period using the treasury stock method. When applying the treasury stock method, we add: (1) the assumed proceeds from option exercises; (2) the tax benefit, if any, that would have been credited to additional paid-in capital assuming exercise of non-qualified stock options and vesting of shares of restricted stock; and (3) the average unamortized compensation costs related to unvested shares of restricted stock and stock options. We then divide this sum by our average stock price for the period to calculate assumed shares repurchased. The excess of the number of shares issuable over the number of shares assumed to be repurchased is added to basic weighted average common shares to calculate diluted earnings per share.

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The following is a summary of the Company's earnings per share calculations and reconciliation of basic to diluted earnings per share for the periods indicated (dollars in thousands, except share data):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income available to common stockholders	\$ 3,696	\$ 2,395	\$ 13,013	\$ 9,962
Weighted average shares outstanding-basic	39,913,992	41,341,567	40,532,972	41,422,228
Effect of non-vested restricted stock and stock options outstanding	449,686	157,055	424,272	279,248
Weighted average shares outstanding-diluted	40,363,678	41,498,622	40,957,244	41,701,476
Earnings per share-basic	\$ 0.09	\$ 0.06	\$ 0.32	\$ 0.24
Earnings per share-diluted	\$ 0.09	\$ 0.06	\$ 0.32	\$ 0.24

**Note 8 Stock Repurchase Program**

On September 9, 2011 the Board of Directors of the Company authorized the continuance of the stock repurchase program. Under its current program, the Company intends to repurchase up to 2,066,379 additional shares, representing approximately 5% of its outstanding shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company's liquidity and capital requirements, and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. The Company is conducting such repurchases in accordance with a Rule 10b5-1 trading plan. As of September 30, 2011, the Company held 4,412,120 shares in treasury at a weighted average cost of \$12.74 per share.

**Note 9 Income Taxes**

The Company files income tax returns in the United States federal jurisdiction and in the State of New Jersey. The Company's subsidiary files income tax returns in the State and City of New York, and the State of New Jersey. The State and City of New York have are currently examining our subsidiary's tax returns filed for 2007, 2008, and 2009. The Company, and its subsidiary, are no longer subject to federal and local income tax examinations by tax authorities for years prior to 2007.

**Note 10 Recent Accounting Pronouncements**

Accounting Standards Update No. 2011-02 amends Topic 310 and clarifies the guidance on a creditor's evaluation of whether it has granted a concession, and whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired under Section 310-10-35 for which impairment was previously measured under Subtopic 450-20, Contingencies—Loss Contingencies. An entity should disclose the information required by paragraphs 310-10-50-33 through 50-34, which was deferred by Accounting Standards Update No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, for interim and annual periods beginning on or after June 15, 2011. The Company has early adopted the requirements of this Accounting Standard Update as of March 31, 2011, and has provided the applicable disclosures as part of Note 3 to these condensed financial statements. The adoption of this Accounting Standard Update did not result in a material change to the Company's consolidated financial statements.

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

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

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In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ( IFRS ). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risk or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 is expected to result in presentation changes to the Company's statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 will have no affect on the Company's balance sheets.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*. The provisions of ASU No. 2011-08 simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The provisions of ASU No. 2011-05 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU No. 2011-08 is not expected to have a material effect on the Company's consolidated financial statements.

**Note 10 Subsequent Events**

On October 14, 2011, Northfield Bank (the Bank ) assumed all of the deposits and acquired essentially all of the assets of First State Bank, a New Jersey State-chartered bank, from the Federal Deposit Insurance Corporation (the



FDIC ), as receiver for First State Bank, pursuant to the terms of the Purchase and Assumption Agreement, dated October 14, 2011, between the Bank and the FDIC, as receiver for First State Bank.

The Bank assumed approximately \$188.6 million in liabilities including approximately \$188.3 million in deposits and acquired approximately \$185.0 million in assets, including approximately \$132.8 million in loans and approximately \$21.2 million in securities. The loans acquired by the Bank principally consist of commercial loans and commercial real estate loans.

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The Bank did not purchase \$5.6 million in SBA Loans, and \$5.2 million in other loans which were retained by the FDIC. Deposits were acquired at no premium and assets acquired were purchased at a discount of \$46.9 million resulting in a cash payment from the FDIC of approximately \$50.5 million. The Agreement contained no loss-share provisions with the FDIC.

On October 12, 2011, Northfield Bancorp, MHC received a letter of non-objection from the Federal Reserve Bank of Philadelphia for Northfield Bancorp, MHC to waive its right to receive dividends from Northfield Bancorp, Inc. for the quarters ending September 30, 2011, December 31, 2011 and March 31, 2012.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, and similar expressions. These forward looking statements include:

- statements of our goals, intentions, and expectations;
- statements regarding our business plans, prospects, growth, and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- the effect of the current financial economic downturn on our loan portfolio, investment portfolio, and deposit and other customers;
- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment or other changes that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- adverse changes in the securities markets;
- legislative or regulatory changes that adversely affect our business;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible dilutive effect of potential acquisitions or *de novo* branches, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, the Public Company Accounting Oversight Board and other promulgating authorities;
- inability of borrowers and/or third-party providers to perform their obligations to us;
- the effect of recent governmental legislation restructuring the U.S. financial and regulatory system;
- the effect of developments in the secondary market affecting our loan pricing;
- the level of future deposit insurance premiums; and
- changes in our organization, compensation, and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

### **Critical Accounting Policies**

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

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the Company, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K, for the year ended December 31, 2010.

**Overview**

This overview highlights selected information and may not contain all the information that is important to you in understanding our performance during the period. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates, you should read this entire document carefully, as well as our Annual Report on Form 10-K for the year ended December 31, 2010.

Net income amounted to \$3.7 million and \$13.0 million for the three and nine months ended September 30, 2011, as compared to \$2.4 million and \$10.0 million for the three and nine months ended September 30, 2010. Basic and diluted earnings per share were \$0.09 and \$0.32 for the three and nine months ended September 30, 2011, compared to \$0.06 and \$0.24 for the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2011, our return on average assets was 0.63% and 0.76%, as compared to 0.44% and 0.63% for the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2011, our return on average shareholders' equity was 3.71% and 4.39%, as compared to 2.36% and 3.35% for the three and nine months ended September 30, 2010.

Assets increased by 3.7% to \$2.33 billion at September 30, 2011, from \$2.25 billion at December 31, 2010. The increase in total assets reflected increases in loans held for investment, net, of \$137.7 million, or 16.6%, which was partially offset by decreases in our securities portfolio and interest-bearing deposits in other financial institutions. The increase in our total assets during 2011 was funded primarily by an increase in deposits and borrowings. Deposits increased \$82.0 million to \$1.45 billion at September 30, 2011, from \$1.37 billion at December 31, 2010. The increase in deposits was attributable to growth in transaction accounts and savings accounts partially offset by a decrease in certificates of deposit. Borrowed funds increased \$63.1 million to \$454.3 million at September 30, 2011, from \$391.2 million at December 31, 2010.

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

Total assets increased \$83.9 million, or 3.7%, to \$2.33 billion at September 30, 2011, from \$2.25 billion at December 31, 2010. The increase was primarily attributable to an increase in loans held for investment, net, of \$137.7 million, or 16.6%. This increase was partially offset by decreases in securities available for sale of \$38.2 million and interest-bearing deposits in other financial institutions of \$10.8 million.

Cash and cash equivalents decreased \$10.3 million, or 23.6%, to \$33.5 million at September 30, 2011, from \$43.9 million at December 31, 2010. The Company routinely maintains liquid assets in interest-bearing accounts in other well-capitalized financial institutions.

Securities available-for-sale decreased \$38.2 million, or 3.1%, to \$1.20 billion at September 30, 2011, from \$1.24 billion at December 31, 2010. The decrease was primarily attributable to maturities and paydowns of \$280.7 million, and sales of \$137.9 million, partially offset by purchases of \$366.4 million and an increase of \$14.3 million in net unrealized gains.

Securities held-to-maturity decreased \$930,000, or 18.4%, to \$4.1 million at September 30, 2011, from \$5.1 million at December 31, 2010. The decrease was attributable to maturities and paydowns during the nine months ended September 30, 2011.

The Company's securities portfolio totaled \$1.21 billion at September 30, 2011, compared to \$1.25 billion at December 31, 2010. At September 30, 2011, \$1.02 billion of the portfolio consisted of residential mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. The Company also held residential mortgage-backed securities not guaranteed by these three entities, referred to as private label securities. The private label securities had an amortized cost of \$44.3 million and an estimated fair value of \$45.3 million at September 30, 2011. These private label securities were in a net unrealized gain position of \$1.0 million at September 30, 2011, consisting of gross unrealized gains of \$2.1 million and gross unrealized losses of \$1.1 million. In addition to the above mortgage-backed securities, the Company held \$127.4 million in investment grade corporate bonds at September 30, 2011, and \$8.5 million of equity investments in mutual funds, consisting of \$8.0 million in a fund that is focused on investments that qualify under the Community Reinvestment Act and \$474,000 in money market mutual funds.



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Of the \$44.3 million of private label securities, two securities with an estimated fair value of \$8.2 million (amortized cost of \$9.2 million) were rated less than investment grade at September 30, 2011. One of the two securities was rated C and the other security was rated Caa2. The ratings of the securities detailed above represent the lowest rating for each security received from the rating agencies of Moody's, Standard & Poor's, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of these securities. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for the securities rated below investment grade at September 30, 2011. As a result of management's evaluation of these securities, the Company recognized other-than-temporary impairment of \$991,000 on the securities rated below investment grade during the quarter ended June 30, 2011. Since management does not have the intent to sell the securities, and believes it is more likely than not that the Company will not be required to sell the securities, before its anticipated recovery, the credit component of \$248,000 was recognized in earnings during the quarter ended June 30, 2011, and the non-credit component of \$743,000 was recorded as a component of accumulated other comprehensive income, net of tax. All other losses within the Company's investment portfolio were deemed to be temporary at September 30, 2011, and as such, were recorded as a component of accumulated other comprehensive income, net of tax.

During the three months ended March 31, 2011, the Company recognized an other-than-temporary impairment charge on an equity investment in a mutual fund. The investment had been in a continuous loss position for approximately ten months, and as a result of management's evaluation of this security, the Company believed that the unrealized loss of \$161,000 was other-than-temporary, and as such, recognized this charge in earnings during the three months ended March 31, 2011. There was no further impairment during the three months ended September 30, 2011.

Loans held for investment, net, totaled \$965.3 million at September 30, 2011, as compared to \$827.6 million at December 31, 2010. The increase was primarily in multi-family real estate loans, which increased \$136.4 million, or 48.1%, to \$420.0 million at September 30, 2011, from \$283.6 million at December 31, 2010. Insurance premium loans increased \$13.3 million, or 29.9%, to \$57.8 million, commercial real estate loans increased \$726,000, or 0.2% to \$340.0 million and home equity loans increased \$2.0 million, or 7.0%, to \$30.1 million at September 30, 2011. These increases were partially offset by decreases in one-to-four family residential, land and construction, and commercial and industrial loans. Currently, management is focused on originating multi-family loans, with less emphasis on other loan types.

Bank owned life insurance increased \$2.2 million, or 3.0%, from December 31, 2010 to September 30, 2011. The increase resulted from income earned on bank owned life insurance for the nine months ended September 30, 2011.

Federal Home Loan Bank of New York stock, at cost, decreased \$253,000, or 2.6%, to \$9.5 million at September 30, 2011, from \$9.8 million at December 31, 2010. This decrease was attributable to a decrease in borrowings outstanding with the Federal Home Loan Bank of New York over the same time period.

Premises and equipment, net, increased \$2.2 million, or 13.7%, to \$18.3 million at September 30, 2011, from \$16.1 million at December 31, 2010. This increase is primarily attributable to leasehold improvements made to new branches and the renovation of existing branches.

Other real estate owned decreased \$137,000, or 80.1%, to \$34,000 at September 30, 2011, from \$171,000 at December 31, 2010. This decrease is attributable to the sales of several properties during the nine months ended September 30, 2011.

Other assets decreased \$4.7 million, or 26.0%, to \$13.4 million at September 30, 2011, from \$18.1 million at December 31, 2010. The decrease in other assets was attributable to a decrease in amounts due us from taxing authorities, and a decrease in prepaid FDIC insurance premiums due to amortization related to the FDIC prepayment of insurance premiums that was made in 2009 partially offset by an increase in prepaid expenses.

The increase in deposits for the nine months ended September 30, 2011, was due in part to an increase in transaction accounts of \$50.4 million, or 26.9%, and an increase in savings accounts of \$43.4 million, or 6.9%, from December 31, 2010 to September 30, 2011. These increases were partially offset by a decrease of \$11.8 million in total certificates of deposit. Deposits originated through





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the CDARS® Network totaled \$39.0 million at September 30, 2011, and \$68.4 million at December 31, 2010. The Company utilizes the CDARS® Network as a cost effective alternative to other short-term funding sources.

Borrowings, consisting primarily of repurchase agreements from other financial institutions and Federal Home Loan Bank advances, increased \$63.1 million, or 16.1%, to \$454.3 million at September 30, 2011, from \$391.2 million at December 31, 2010. The increase in borrowings was primarily the result of the Company taking advantage of the current lower interest rate market to reduce interest rate risk, partially offset by maturities during the nine months ended September 30, 2011.

Accrued expenses and other liabilities decreased \$56.9 million, to \$28.8 million at September 30, 2011, from \$85.7 million at December 31, 2010. The decrease was primarily a result of a decrease in due to securities brokers of \$57.0 million.

Total stockholders' equity decreased by \$6.4 million to \$390.3 million at September 30, 2011, from \$396.7 million at December 31, 2010. The decrease was primarily due to \$28.2 million in stock repurchases and the payment of approximately \$2.8 million in cash dividends. These decreases were partially offset by net income of \$13.0 million for the nine months ended September 30, 2011, and an increase of \$2.6 million in additional paid-in capital primarily related to the recognition of compensation expense associated with equity awards, and an increase in accumulated other comprehensive income of \$8.5 million for the nine months ended September 30, 2011.

On September 9, 2011 the Board of Directors of the Company authorized the continuance of the stock repurchase program. Under its current program, the Company intends to repurchase up to 2,066,379 additional shares, representing approximately 5% of its outstanding shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company's liquidity and capital requirements, and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. The Company is conducting such repurchases in accordance with a Rule 10b5-1 trading plan. As of September 30, 2011, the company held 4,412,120 shares in treasury at a weighted average cost of \$12.74 per share.

**Comparison of Operating Results for the Three Months Ended September 30, 2011 and 2010**

**Net income.** Net income increased \$1.3 million, or 54.3%, to \$3.7 million for the quarter ended September 30, 2011, as compared to \$2.4 million for the quarter ended September 30, 2010, due primarily to an increase of \$599,000 in net interest income, a \$1.4 million decrease in the provision for loan losses and a \$1.4 million decrease in non-interest expense, partially offset by a decrease in non-interest income of \$261,000 and an increase of \$1.8 million in income tax expense. 2010 third quarter results include a pre-tax charge of \$1.8 million related to the postponed second-step offering and a \$738,000 benefit for the reversal of deferred tax liabilities due to a change in New York State and City tax law related to bad debt reserves.

**Interest income.** Interest income increased \$1.0 million, or 4.8%, to \$22.7 million for the three months ended September 30, 2011, from \$21.7 million for the three months ended September 30, 2010. The increase was primarily due to an increase in interest income on loans of \$2.1 million. The increase in interest income of loans and can be attributed to an increase in the average balances of \$149.1 million. These increases were partially offset by decreases in interest income on mortgage backed securities of \$398,000 and interest income on other securities of \$756,000. The decrease in mortgage backed securities was primarily attributable to a decrease of 44 basis points in the yield earned partially offset by an increase in the average balance of \$89.2 million. The decrease in the interest income earned on other securities was primarily attributable to a decrease in the average balance of \$135.4 million partially offset by an increase of 19 basis points in the yield earned.

**Interest expense.** Interest expense increased \$438,000, or 7.3%, to \$6.4 million for the three months ended September 30, 2011, from \$6.0 million for the three months ended September 30, 2010. The increase was comprised of an increase of \$524,000 in interest expense on borrowings, partially offset by a decrease in interest expense on deposits of \$86,000. The increase in interest expense on borrowings can be attributed to an increase in the average balances of borrowings of \$104.1 million, or 30.8%, from \$338.1 million for the three months ended September 30, 2010, as compared to \$442.2 million for the three months ended September 30, 2011, partially offset by a decrease in the cost of 30 basis points from 3.29% to 2.99%. The decrease in interest expense on deposits can be attributed to a decrease in the cost of interest bearing deposits of six basis points from 0.98% to 0.92%, partially offset by the increase in average balance of interest bearing deposit accounts of \$34.8 million, or 2.7%, from \$1.30 billion for the

three months ended September 30, 2010, to \$1.33 billion for the three months ended September 30, 2011.

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**Net Interest Income.** Net interest income increased \$599,000, or 3.8%, as interest-earning assets increased by 6.7% to \$2.2 billion. The general decline in interest rates has resulted in yields earned on interest earning assets declining seven basis points to 4.14% for the current quarter as compared to 4.21% for the prior year comparable period, while rates paid on interest-bearing liabilities decreased one basis point to 1.44% for the current quarter as compared to 1.45% for the prior year comparable period. The weighted average contractual rate on our loan portfolio has declined 22 basis points from 6.05% at December 31, 2010, to 5.83% at September 30, 2011. The quarter ended September 30, 2011, included prepayment loan income of \$331,000 compared to \$11,000 for the quarter ended September 30, 2010. The increase in average interest earning assets was due primarily to increases in average loans outstanding of \$149.1 million, \$89.2 million in mortgage-backed securities and \$32.0 million in interest-earning assets in other financial institutions, partially offset by a decrease in other securities of \$135.4 million. Other securities consist primarily of investment-grade shorter-term corporate bonds, and government-sponsored enterprise bonds.

**Provision for Loan Losses.** The provision for loan losses was \$2.0 million for the quarter ended September 30, 2011; a decrease of \$1.4 million, or 41.1%, from the \$3.4 million provision recorded in the quarter ended September 30, 2010. The decrease in the provision for loan losses in the current quarter was due primarily to a shift in the composition of our loan portfolio to multi-family loans, which generally require lower general reserves than other commercial real estate loans, decreases in charge-offs and decreases in non-performing loans, partially offset by increased loan originations during the quarter ended September 30, 2011, as compared to the quarter ended September 30, 2010. During the quarter ended September 30, 2011, the Company recorded net charge-offs of \$17,000 compared to net charge-offs of \$1.6 million for the quarter ended September 30, 2010.

**Non-interest Income.** Non-interest income decreased \$261,000, or 17.4%, to \$1.2 million for the quarter ended September 30, 2011, as compared to \$1.5 million for the quarter ended September 30, 2010. This decrease was primarily a result of a \$694,000 decrease in (loss) gain on security sales, with \$271,000 in losses on security sales for the current year quarter as compared to \$423,000 in gains for the comparable quarter in 2010, this was partially offset by a \$109,000 increase in fees and service charges for customer services, a \$184,000 increase of income earned on bank owned life insurance, generated by increased cash surrender values, primarily resulting from higher levels of bank owned life insurance and a \$154,000 decrease in other-than- temporary credit impairment charge on securities. The Company routinely sells securities when market pricing presents, in management's assessment, an economic benefit that outweighs holding such securities, and when smaller balance securities become cost prohibitive to carry.

**Non-interest Expense.** Non-interest expense decreased \$1.4 million, or 12.4%, for the quarter ended September 30, 2011, as compared to the quarter ended September 30, 2010, due primarily to professional fees decreasing \$1.8 million resulting from the expensing of approximately \$1.8 million in costs incurred for the Company's postponed, second-step stock offering in the prior year quarter, this was partially offset by an increase in occupancy expense of \$357,000, or 26.9%, primarily due to increases in rent and amortization of leasehold improvements relating to new branches and the renovation of existing branches.

**Income Tax Expense.** The Company recorded income tax expense of \$2.0 million for the quarter ended September 30, 2011 compared to \$215,000 for the quarter ended September 30, 2010. The effective tax rate for the quarter ended September 30, 2011, was 35.5%, as compared to 8.2% for the quarter ended September 30, 2010. The increase in the effective tax rate was primarily a result of a \$738,000 benefit for the reversal of deferred tax liabilities relating to a change in New York State and City tax law related to bad debt reserves in the third quarter of 2010.

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NORTHFIELD BANCORP, INC.  
ANALYSIS OF NET INTEREST INCOME  
(Dollars in thousands)

	For the Quarter Ended September 30,					
	2011			2010		
	Average Outstanding Balance	Interest	Average Yield/ Rate (1)	Average Outstanding Balance	Interest	Average Yield/ Rate (1)
<b>Interest-earning assets:</b>						
Loans (5)	\$ 942,701	\$ 14,044	5.91%	\$ 793,600	\$ 11,908	5.95%
Mortgage-backed securities	1,047,610	7,746	2.93	958,409	8,144	3.37
Other securities	120,754	781	2.57	256,146	1,537	2.38
Federal Home Loan Bank of New York stock	9,508	113	4.72	7,426	75	4.01
Interest-earning deposits in financial institutions	58,527	35	0.24	26,541	18	0.27
Total interest-earning assets	2,179,100	22,719	4.14	2,042,122	21,682	4.21
Non-interest-earning assets	143,639			125,438		
Total assets	\$ 2,322,739			\$ 2,167,560		
<b>Interest-bearing liabilities:</b>						
Savings, NOW, and money market accounts	\$ 732,128	\$ 1,155	0.63	\$ 673,243	\$ 1,223	0.72
Certificates of deposit	602,257	1,956	1.29	626,309	1,974	1.25
Total interest-bearing deposits	1,334,385	3,111	0.92	1,299,552	3,197	0.98
Borrowed funds	442,239	3,331	2.99	338,094	2,807	3.29
Total interest-bearing liabilities	1,776,624	6,442	1.44	1,637,646	6,004	1.45
Non-interest bearing deposit accounts	135,355			115,614		
Accrued expenses and other liabilities	15,086			11,704		
Total liabilities	1,927,065			1,764,964		
Stockholders equity	395,674			402,596		
Total liabilities and stockholders equity	\$ 2,322,739			\$ 2,167,560		

Net interest income	\$ 16,277	\$ 15,678
Net interest rate spread (2)	2.70	2.76
Net interest-earning assets (3)	\$ 402,476	\$ 404,476
Net interest margin (4)	2.96%	3.05%
Average interest-earning assets to interest-bearing liabilities	122.65	124.70

- (1) Average yields and rates for the three months ended September 30, 2011 and 2010, are annualized.
- (2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.
- (5) Loans include non-accrual loans.

#### **Comparison of Operating Results for the Nine Months Ended September 30, 2011 and 2010**

**Net income.** Net income increased \$3.1 million, or 30.6%, to \$13.0 million for the nine months ended September 30, 2011, as compared to \$10.0 million for the nine months ended September 30, 2010, due primarily to an increase of \$1.7 million in net interest income, an increase in non-interest income of \$1.4 million, and a \$3.0 million decrease in the provision for loan losses, partially offset by an increase of \$574,000 in non-interest expense, and an increase of \$2.6 million in income tax expense.

**Interest income.** Interest income increased \$2.4 million, or 3.8%, to \$67.2 million for the nine months ended September 30, 2011, from \$64.7 million for the nine months ended September 30, 2010. The increase was primarily due to an increase in interest income on loans of \$5.0 million. The increase in interest income of loans can be attributed to an increase in the average balances of \$125.2 million partially offset by a decrease in the yield earned on loans of ten basis points. The increase in interest income earned on loans was partially offset by a

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decrease in interest income on mortgage-backed securities and other securities of \$614,000 and \$2.1 million, respectively. The decrease in interest income earned on mortgage-backed securities was primarily attributable to a decrease in the yield earned by 63 basis points partially offset by an increase in the average balance of \$161.1 million. The decrease in interest earned on other securities was primarily attributable to a decrease in the average balances of \$115.7 million partially offset by an increase of ten basis points in the yield earned.

**Interest expense.** Interest expense increased \$701,000, or 3.8%, to \$19.3 million for the nine months ended September 30, 2011, from \$18.6 million for the nine months ended September 30, 2010. The increase was comprised of an increase of \$1.8 million in interest expense on borrowings, partially offset by a decrease in interest expense on deposits of \$1.1 million. The increase in interest expense on borrowings can be attributed to an increase in the average balances of borrowings of \$154.4 million or 47.7% from \$323.7 million for the nine months ended September 30, 2010, as compared to \$478.1 million for the nine months ended September 30, 2011, partially offset by a decrease in the cost of 56 basis points from 3.32% to 2.76%. The decrease in interest expense on deposits can be attributed to a decrease in the cost of interest bearing deposits of fifteen basis points from 1.12% to 0.97%, partially offset by the increase in average balance of interest bearing deposit accounts of \$31.4 million or 2.5% from \$1.26 billion for the nine months ended September 30, 2010, to \$1.29 billion for the nine months ended September 30, 2011.

**Net Interest Income.** Net interest income increased \$1.7 million, or 3.8%, as interest-earning assets increased by 8.7% to \$2.2 billion. The general decline in interest rates has resulted in yields earned on interest earning assets declining 19 basis points to 4.16% for the current nine-months as compared to 4.35% for the prior year comparable period, while rates paid on interest-bearing liabilities decreased 11 basis points to 1.46% for the current nine months as compared to 1.57% for the prior year comparable period. The nine months ended September 30, 2011, included prepayment loan income of \$494,000 compared to \$22,000 for the nine months ended September 30, 2010. The increase in average interest earning assets was due primarily to increases in average loans outstanding of \$125.2 million and \$161.1 million in mortgage-backed securities, partially offset by decreases in other securities and interest-earning assets in other financial institutions. Other securities consist primarily of investment-grade shorter-term corporate bonds, and government-sponsored enterprise bonds.

**Provision for Loan Losses.** The provision for loan losses was \$5.1 million for the nine months ended September 30, 2011; a decrease of \$3.0 million, or 37.0%, from the \$8.1 million provision recorded in the nine months ended September 30, 2010. The decrease in the provision for loan losses in the current nine months was due primarily to a shift in the composition of our loan portfolio to multi-family loans, which generally require lower general reserves than other commercial real estate loans, decreases in charge-offs, and decreases in non-performing loans, partially offset by increased loan originations during the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010. During the nine months ended September 30, 2011, the Company recorded net charge-offs of \$1.4 million compared to net charge-offs of \$2.6 million for the nine months ended September 30, 2010.

**Non-interest Income.** Non-interest income increased \$1.4 million, or 28.5%, to \$6.5 million for the nine months ended September 30, 2011, as compared to \$5.1 million for the nine months ended September 30, 2010. This increase was primarily a result of an \$805,000 increase in gains on security sales, with \$2.4 million in gains on security sales for the current nine months as compared to \$1.6 million for the comparable nine months in 2010, a \$261,000 increase in fees and service charges for customer services, and a \$733,000 increase in income earned on bank owned life insurance, generated by increased cash surrender values, primarily resulting from higher levels of bank owned life insurance. The Company routinely sells securities when market pricing presents, in management's assessment, an economic benefit that outweighs holding such securities, and when smaller balance securities become cost prohibitive to carry. These increases were partially offset by a \$409,000 other-than-temporary credit impairment charge recognized on two private label mortgage backed securities and an equity mutual fund and a decrease of \$95,000 in other income.

**Non-interest Expense.** Non-interest expense increased \$574,000 million, or 2.0%, for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, due primarily to compensation and employee benefits expense increasing \$1.3 million which resulted primarily from increases in employees related to additional branch and operations personnel, and to a lesser extent, salary adjustments effective January 1, 2011.

Occupancy expense increased \$797,000, or 21.5%, over the same time period, primarily due to increases in rent and amortization of leasehold improvements relating to new branches and the renovation of existing branches. This was partially offset by decreased professional fees of \$1.6 million, resulting from the expensing of approximately \$1.8 million in costs incurred for the Company's postponed, second-step stock offering in the prior year quarter offset by increased costs related to loan workouts.

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**Income Tax Expense.** The Company recorded income tax expense of \$7.0 million and \$4.4 million for the nine months ended September 30, 2011, and 2010, respectively. The effective tax rate for the nine months ended September 30, 2011, was 34.9%, as compared to 30.6% for the nine months ended September 30, 2010. The increase in the effective tax rate was primarily a result of a \$738,000 benefit for the reversal of deferred tax liabilities due to a change in New York State and City tax law related to bad debt reserves in the third quarter of 2010.

NORTHFIELD BANCORP, INC.  
ANALYSIS OF NET INTEREST INCOME  
(Dollars in thousands)

	For the Nine Months Ended September, 2011		Average Yield/ Rate (1)	2010		Average Yield/ Rate (1)
	Average Outstanding Balance	Interest		Average Outstanding Balance	Interest	
<b>Interest-earning assets:</b>						
Loans (5)	\$ 887,201	\$ 39,296	5.92%	\$ 761,969	\$ 34,299	6.02%
Mortgage-backed securities	1,081,940	24,838	3.07	920,864	25,452	3.70
Other securities	130,081	2,538	2.61	245,731	4,605	2.51
Federal Home Loan Bank of New York stock	10,145	343	4.52	6,661	233	4.68
Interest-earning deposits in financial institutions	51,354	140	0.36	53,250	132	0.33
Total interest-earning assets	2,160,721	67,155	4.16	1,988,475	64,721	4.35
Non-interest-earning assets	137,820			114,515		
Total assets	\$ 2,298,541			\$ 2,102,990		
<b>Interest-bearing liabilities:</b>						
Savings, NOW, and money market accounts	\$ 709,471	3,453	0.65	\$ 668,854	\$ 3,907	0.78
Certificates of deposit	581,077	5,946	1.37	590,303	6,624	1.50
Total interest-bearing deposits	1,290,548	9,399	0.97	1,259,157	10,531	1.12
Borrowed funds	478,066	9,879	2.76	323,654	8,046	3.32
Total interest-bearing liabilities	1,768,614	19,278	1.46	1,582,811	18,577	1.57
Non-interest bearing deposit accounts	122,089			112,777		
Accrued expenses and other liabilities	11,519			9,431		
Total liabilities	1,902,222			1,705,019		



Stockholders equity	396,319	397,971	
Total liabilities and stockholders equity	\$ 2,298,541	\$ 2,102,990	
Net interest income	\$ 47,877	\$ 46,144	
Net interest rate spread (2)		2.70	2.78
Net interest-earning assets (3)	\$ 392,107	\$ 405,664	
Net interest margin (4)		2.96%	3.10%
Average interest-earning assets to interest-bearing liabilities		122.17	125.63

(1) Average yields and rates for the nine months ended September 30, 2011 and 2010, are annualized.

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

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

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

(5) Loans include non-accrual loans.

#### **Asset Quality**

Nonperforming loans totaled \$53.4 million (5.5% of total loans) as compared to \$58.0 million (6.4% of total loans) at June 30, 2011, \$56.7 million (6.6% of total loans) at March 31, 2011, \$60.9 million (7.4% of total loans) at December 31, 2010 and \$55.4 million (6.9% of total loans) at September 30, 2010. The following table

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shows, for the same dates, troubled debt restructurings on which interest is accruing, and accruing loans delinquent 30 to 89 days (dollars in thousands).

	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>
Non-accruing loans	\$ 28,035	\$ 29,036	\$ 31,662	\$ 39,303	\$ 37,882
Non-accruing loans subject to restructuring agreements	23,763	26,994	24,136	19,978	17,261
Total non-accruing loans	51,798	56,030	55,798	59,281	55,143
Loans 90 days or more past due and still accruing	1,595	1,987	876	1,609	248
Total non-performing loans	53,393	58,017	56,674	60,890	55,391
Other real estate owned	34	118	521	171	171
Total non-performing assets	\$ 53,427	\$ 58,135	\$ 57,195	\$ 61,061	\$ 55,562
Loans subject to restructuring agreements and still accruing	\$ 18,355	\$ 15,622	\$ 12,259	\$ 11,198	\$ 11,218
Accruing loans 30 to 89 days delinquent	\$ 30,973	\$ 14,169	\$ 14,551	\$ 19,798	\$ 35,190

**Total Non-Accruing Loans**

Total non-accruing loans decreased \$7.5 million, to \$51.8 million at September 30, 2011, from \$59.3 million at December 31, 2010. This decrease was primarily attributable to the following loan types being returned to accrual status during the nine months ended September 30, 2011: \$1.8 million of multifamily loans, \$6.7 million of commercial real estate loans, and \$332,000 of one-to-four family residential loans. Loans returned to accrual status were current as to principal and interest, performing under the original loan terms for at least six months and other factors indicating doubtful collection no longer existed. Non-accrual loans also decreased as a result of \$613,000 of pay-offs, the transfer of a \$376,000 commercial real estate loan to other real estate owned, an additional \$1.5 million of charge-offs being recorded on existing and new non-accrual loans, and principal pay-downs of approximately \$3.2 million. The above decreases in non-accruing loans during the nine months ended September 30, 2011, were partially offset by the following loan types being placed on non-accrual status during the nine months ended September 30, 2011: \$3.5 million of commercial real estate loans, \$1.1 million of commercial and industrial loans, \$405,000 of construction and land loans, home equity loans of \$155,000, and \$1.7 million of one-to-four family loans.

**Delinquency Status of Total Non-accruing Loans**

Generally, loans are placed on non-accrual status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have a minimum of six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent, and still be in a non-accruing status.

The following tables detail the delinquency status of non-accruing loans at September 30, 2011 and December 31, 2010 (dollars in thousands).

	<b>September 30, 2011</b>			<b>Total</b>
	<b>0 to 29</b>	<b>Days Past Due 30 to 89</b>	<b>90 or more</b>	
Real estate loans:				

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Commercial	\$ 21,803	\$ 1,608	\$ 17,219	\$ 40,630
One -to- four family residential	553	561	1,533	2,647
Construction and land	2,081		875	2,956
Multifamily			2,963	2,963
Home equity and lines of credit			334	334
Commercial and industrial loans	558	91	1,516	2,165
Insurance premium loans			103	103
Total non-accruing loans	\$ 24,995	\$ 2,260	\$ 24,543	\$ 51,798

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	<b>December 31, 2010</b>			<b>Total</b>
	<b>Days Past Due</b>			
	<b>0 to 29</b>	<b>30 to 89</b>	<b>90 or more</b>	
Real estate loans:				
Commercial	\$ 13,679	\$ 15,050	\$ 17,659	\$ 46,388
One -to- four family residential	135	770	370	1,275
Construction and land	2,152	1,860	1,110	5,122
Multifamily	1,824	927	2,112	4,863
Home equity and lines of credit			181	181
Commercial and industrial loans		267	1,056	1,323
Insurance premium loans			129	129
Total non-accruing loans	\$ 17,790	\$ 18,874	\$ 22,617	\$ 59,281

**Loans Subject to Restructuring Agreements**

Included in non-accruing loans are loans subject to restructuring agreements totaling \$23.8 million and \$20.0 million at September 30, 2011, and December 31, 2010, respectively. At September 30, 2011, \$22.2 million, or 93.3%, of the \$23.8 million were performing in accordance with their restructured terms.

The Company also holds loans subject to restructuring agreements, and still accruing, which totaled \$18.4 million and \$11.2 million at September 30, 2011, and December 31, 2010, respectively. At September 30, 2011, \$12.6 million, or 68.8% of the \$18.4 million were performing in accordance with their restructured terms.

The following table details the amounts and categories of the loans subject to restructuring agreements by loan type as of September 30, 2011, and December 31, 2010 (dollars in thousands).

	<b>At September 30, 2011</b>		<b>At December 31, 2010</b>	
	<b>Non-Accruing</b>	<b>Accruing</b>	<b>Non-Accruing</b>	<b>Accruing</b>
Troubled debt restructurings:				
Real estate loans:				
Commercial	\$ 20,144	\$ 13,452	\$ 13,138	\$ 7,879
One- to four-family residential	497	2,385		1,750
Construction and land	2,081	72	4,012	
Multifamily	491	1,556	2,327	1,569
Commercial and industrial	550	890	501	
Total	\$ 23,763	\$ 18,355	\$ 19,978	\$ 11,198
Performing in accordance with restructured terms	93.27%	68.82%	61.03%	100.00%

The 31.2% of accruing TDRs not performing in accordance with their contractual terms were 30 days delinquent at September 30, 2011, and made subsequent payments in October of 2011.

**Loans 90 Days or More Past Due and Still Accruing and Other Real Estate Owned**

Loans 90 days or more past due and still accruing decreased \$14,000 at September 30, 2011, to remain relatively the same as the \$1.6 million recorded at December 31, 2010. Loans 90 days or more past due and still accruing at September 30, 2011, are considered well-secured and in the process of collection or past maturity, paying interest in accordance with original loan terms, and in the process of renewal.

Other real estate owned amounted to \$34,000 at September 30, 2011, as compared to \$171,000 at December 31, 2010.

**Delinquency Status of Accruing Loans 30-89 Days Delinquent**

Loans 30 to 89 days delinquent and on accrual status at September 30, 2011, totaled \$31.0 million, an increase of \$11.2 million, from the December 31, 2010 balance of \$19.8 million. The following tables set forth delinquencies for accruing loans by type and by amount at September 30, 2011, and December 31, 2010 (dollars in thousands).

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	<b>30 to 89 Days</b>	<b>September 30, 2011 90 Days and Over</b>	<b>Total</b>
Real estate loans:			
Commercial	\$ 12,595	\$	\$ 12,595
One- to four-family residential	4,925		4,925
Construction and land	3,072		3,072
Multifamily	8,006		8,006
Home equity and lines of credit	100	1,491	1,591
Commercial and industrial loans	1,633	104	1,737
Insurance premium loans	606		606
Other loans	36		36
Total delinquent accruing loans	\$ 30,973	\$ 1,595	\$ 32,568

	<b>30 to 89 Days</b>	<b>December 31, 2010 90 Days and Over</b>	<b>Total</b>
Real estate loans:			
Commercial	\$ 8,970	\$	\$ 8,970
One- to four-family residential	2,575	1,108	3,683
Construction and land	499	404	903
Multifamily	6,194		6,194
Home equity and lines of credit	262	59	321
Commercial and industrial loans	536	38	574
Insurance premium loans	660		660

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**Liquidity and Capital Resources**

**Liquidity.** The overall objective of our liquidity management is to ensure the availability of sufficient funds to meet financial commitments and to take advantage of lending and investment opportunities. We manage liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

Our primary sources of funds are deposits, principal and interest payments on loans and securities, borrowed funds, the proceeds from maturing securities and short-term investments, and to a lesser extent the proceeds from the sales of loans and securities and wholesale borrowings. The scheduled amortizations of loans and securities, as well as proceeds from borrowed funds, are predictable sources of funds. Other funding sources, however, such as deposit inflows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. Northfield Bank is a member of the Federal Home Loan Bank of New York (FHLB), which provides an additional source of short-term and long-term funding. Northfield Bank also has borrowing capabilities with the Federal Reserve on a short-term basis. The Bank's borrowed funds, excluding capitalized lease obligations, were \$452.3 million at September 30, 2011, at a weighted average interest rate of 2.79%. A total of \$68.0 million of these borrowings will mature in less than one year. Borrowed funds, excluding capitalized lease obligations, were \$389.3 million at December 31, 2010. The Company has the ability to obtain additional funding from the FHLB and Federal Reserve Bank discount window of approximately \$452.6 million, utilizing

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unencumbered securities of \$450.8 million and multifamily loans of \$47.5 million at September 30, 2011. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

**Capital Resources.** At September 30, 2011, and December 31, 2010, Northfield Bank exceeded all regulatory capital requirements to which it is subject.

	<b>Actual Ratio</b>	<b>Minimum Required for Capital Adequacy Purposes</b>	<b>Minimum Required to Be Well Capitalized under Prompt Corrective Action Provisions</b>
As of September 30, 2011:			
Tangible capital to tangible assets	13.56%	1.50%	NA
Tier 1 capital (core) (to adjusted assets)	13.56	4.00	5.00
Total capital (to risk-weighted assets)	27.06	8.00	10.00
As of December 31, 2010:			
Tangible capital to tangible assets	13.43%	1.50%	NA
Tier 1 capital (core) (to adjusted assets)	13.43	4.00	5.00
Total capital (to risk-weighted assets)	27.39	8.00	10.00

**Off-Balance Sheet Arrangements and Contractual Obligations**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in the financial statements. These transactions primarily relate to lending commitments.

The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2011:

<b>Contractual Obligation</b>	<b>Total</b>	<b>Less than One Year</b>	<b>One to less than Three Years (in thousands)</b>	<b>Three to less than Five Years</b>	<b>Five Years and greater</b>
Debt obligations (excluding capitalized leases)	\$ 452,300	\$ 68,000	\$ 180,800	\$ 191,500	\$ 12,000
Commitments to originate loans	\$ 37,762	\$ 37,762	\$	\$	\$
Commitments to fund unused lines of credit	\$ 30,039	\$ 30,039	\$	\$	\$

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements (original or restructured). Commitments generally have a fixed expiration or other termination clauses which may or may not require payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.



As of September 30, 2011, we serviced \$44.5 million of loans for Freddie Mac. These one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed for by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At September 30, 2011, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage-related assets and loans, generally have longer maturities than our liabilities, which consist primarily of deposits and wholesale funding. As a result, a principal part of our business strategy involves managing interest rate risk and limiting the exposure of our net interest income to changes in market interest rates. Accordingly, our board of directors has established a management risk committee, comprised of our Treasurer, who chairs this Committee, our Chief Executive Officer, our Chief Operating Officer/Chief Financial Officer, our Chief Lending Officer, and our Executive Vice President of Operations. This committee is responsible for, among other things, evaluating the interest rate risk inherent in our assets and liabilities, for recommending to the risk management committee of our board of directors the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We seek to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

- originating commercial real estate loans and multifamily loans that generally tend to have shorter maturities and higher interest rates that generally reset at five years;

- investing in shorter term investment grade corporate securities and mortgage-backed securities; and

- obtaining general financing through lower-cost deposits and longer-term Federal Home Loan Bank advances and repurchase agreements.

Shortening the average term of our interest-earning assets by increasing our investments in shorter-term assets, as well as loans with variable interest rates, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates.

**Net Portfolio Value Analysis.** We compute amounts by which the net present value of our assets and liabilities (net portfolio value or NPV) would change in the event market interest rates changed over an assumed range of rates. Our simulation model uses a discounted cash flow analysis to measure the interest rate sensitivity of NPV. Depending on current market interest rates we estimate the economic value of these assets and liabilities under the assumption that interest rates experience an instantaneous and sustained increase of 100, 200, 300, or 400 basis points, or a decrease of 100 and 200 basis points, which is based on the current interest rate environment. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below.

**Net Interest Income Analysis.** In addition to NPV calculations, we analyze our sensitivity to changes in interest rates through our net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a twelve-month period. Depending on current market interest rates we then calculate what the net interest income would be for the same period under the assumption that interest rates experience an instantaneous and sustained increase or decrease of 100, 200, 300, or 400 basis points, or a decrease of 100 and 200 basis points, which is based on the current interest rate environment.

The table below sets forth, as of September 30, 2011, our calculation of the estimated changes in our NPV, NPV ratio, and percent change in net interest income that would result from the designated instantaneous and sustained changes in interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied on as indicative of actual results (dollars in thousands).

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Change in Interest Rates  (basis points)	Estimated Present Value  of Assets	Estimated Present Value of Liabilities	NPV		Estimated	Net Interest Income Percent  Change
			Estimated NPV	Estimated Change In NPV	NPV/Present Value of Assets Ratio	
+ 400	\$ 2,120,210	\$ 1,781,071	\$ 339,139	\$ (123,939)	16.00%	-13.41%
+ 300	2,173,323	1,811,716	361,607	(101,471)	16.64	-9.68
+ 200	2,238,528	1,843,386	395,142	(67,936)	17.65	-5.78
+ 100	2,308,461	1,876,126	432,335	(30,743)	18.73	-2.30