DIME COMMUNITY BANCSHARES INC
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission file number 0-27782

Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
209 Havemeyer Street, Brooklyn, NY	11211
(Address of principal executive offices)	(Zip Code)

(718) 782-6200
(Registrant's telephone number, including area code)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES X 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.

LARGE ACCELERATED FILER ___	ACCELERATED FILER X	NON -ACCELERATED FILER ___	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 X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Classes of Common Stock	Number of Shares Outstanding at August 6, 2010
$.01 Par Value	34,541,714

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Certain statements contained in this quarterly report on Form 10-Q that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in future filings with the U.S. Securities and Exchange Commission (the "SEC"), press releases, and oral and written statements made by management or with its approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of Dime Community Bancshares, Inc. and its subsidiaries (the "Company") or those of its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements.

Forward-looking statements include information concerning possible or assumed future results of operations and statements preceded by, followed by or that include the words "believes," "expects," "feels," "anticipates," "intends," "pl "estimates," "predicts," "projects," "potential," "outlook," "could," "will," "may" or similar expressions. Forward-looking s are not guarantees of future performance and are subject to risks, uncertainties and assumptions. Actual results may differ materially from those expressed in or implied by these forward-looking statements. Factors that could cause actual results to differ from these forward-looking statements include, but are not limited to, the following, as well as those discussed elsewhere in this report and the documents incorporated by reference herein:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;

- changes in the interest rate environment may reduce interest margins;
- changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;
- general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or banking industry, may be less favorable than currently anticipated;
- legislation or regulatory changes may adversely affect the Company's business;
- technological changes may be more difficult or expensive than the Company anticipates;
- success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and
- the risks referred to in the section entitled "Risk Factors."

Undue reliance should not be placed on any forward-looking statements. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events except to the extent required by Federal securities laws.

Item 1. Condensed Consolidated Financial Statements

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands except share amounts)

	June 30, 2010	December 31, 2009
ASSETS:		
Cash and due from banks	$164,655	$39,338
Federal funds sold and other short-term investments	45,455	3,785
Investment securities held-to-maturity (estimated fair value of $5,089 and $5,330 at June 30, 2010 and December 31, 2009, respectively) (Fully unencumbered)	7,165	7,240
Investment securities available-for-sale, at fair value ($34,526 and $27,646 encumbered at June 30, 2010 and December 31, 2009, respectively)	40,956	43,162
Mortgage-backed securities available-for-sale, at fair value ($178,375 and $221,048 encumbered at June 30, 2010 and December 31, 2009, respectively)	184,723	224,773
Trading securities	1,329	-
Loans:		
Real estate, net	3,460,831	3,392,038
Other loans	4,211	3,221
Less allowance for loan losses	(23,350)	(21,505)
Total loans, net	3,441,692	3,373,754
Loans held for sale	692	416
Premises and fixed assets, net	30,491	29,841
Federal Home Loan Bank of New York ("FHLBNY") capital stock	53,068	54,083
Other real estate owned ("OREO")	350	755
Goodwill	55,638	55,638
Other assets	122,081	119,489
Total Assets	$4,148,295	$3,952,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest bearing deposits	$2,329,830	$2,110,387
Non-interest bearing deposits	109,985	106,449
Total deposits	2,439,815	2,216,836
Escrow and other deposits	77,699	65,895
Securities sold under agreements to repurchase	195,000	230,000
FHLBNY advances	1,020,525	1,009,675
Subordinated notes payable	-	25,000
Trust Preferred securities payable	70,680	70,680
Other liabilities	29,849	39,415
Total Liabilities	$3,833,568	$3,657,501
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at June 30, 2010 and December 31, 2009)	-	-
Common stock ($0.01 par, 125,000,000 shares authorized, 51,151,115 shares and 51,131,784 shares issued at June 30, 2010 and December 31, 2009, respectively, and	511	511

34,547,769 shares and 34,395,531 shares outstanding at June 30, 2010 and December 31, 2009, respectively)		
Additional paid-in capital	223,802	214,654
Retained earnings	317,088	306,787
Accumulated other comprehensive loss, net of deferred taxes	(5,277)	(5,082)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(3,586)	(3,701)
Unearned Restricted Stock Award common stock	(3,573)	(2,505)
Common stock held by Benefit Maintenance Plan ("BMP")	(7,979)	(8,007)
Treasury stock, at cost (16,603,346 shares and 16,736,253 shares at June 30, 2010 and December 31, 2009, respectively)	(206,259)	(207,884)
Total Stockholders' Equity	$314,727	$294,773
Total Liabilities And Stockholders' Equity	$4,148,295	$3,952,274

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income:				
Loans secured by real estate	$51,068	$47,662	$101,191	$95,991
Other loans	30	37	68	74
Mortgage-backed securities	2,082	2,969	4,354	6,249
Investment securities	312	194	719	439
Federal funds sold and other short-term investments	681	858	1,423	1,361
Total interest income	54,173	51,720	107,755	104,114
Interest expense:				
Deposits and escrow	8,010	11,718	15,603	25,930
Borrowed funds	12,958	13,713	26,181	27,755
Total interest expense	20,968	25,431	41,784	53,685
Net interest income	33,205	26,289	65,971	50,429
Provision for loan losses	3,834	2,252	7,281	4,892
Net interest income after provision for loan losses	29,371	24,037	58,690	45,537
Non-interest income:				
Total other than temporary impairment ("OTTI") losses	(521)	(1,160)	(736)	(7,264)
Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes)	13	274	63	1,338
Net OTTI recognized in earnings	(508)	(886)	(673)	(5,926)
Service charges and other fees	945	879	1,881	1,742
Net mortgage banking (loss) income	303	856	513	(312)
Net gain on securities and sales of other assets	216	(92)	785	339
Income from bank owned life insurance	488	501	992	995
Other	1,013	600	1,469	974
Total non-interest income (loss)	2,457	1,858	4,967	(2,188)
Non-interest expense:				
Salaries and employee benefits	7,490	6,666	15,469	13,540
Stock benefit plan amortization expense	1,032	952	1,940	1,878
Occupancy and equipment	2,648	1,882	4,906	3,968
Federal deposit insurance premiums	991	2,762	1,983	3,571
Data processing costs	803	733	1,562	1,487
Provision for losses on OREO	157	-	357	-
Other	2,670	2,330	5,265	4,489
Total non-interest expense	15,791	15,325	31,482	28,933
Income before income taxes	16,037	10,570	32,175	14,416
Income tax expense	6,033	3,654	12,701	4,650
Net income	$10,004	$6,916	$19,474	$9,766
Earnings per Share:				
Basic	$0.30	$0.21	$0.59	$0.30
Diluted	$0.30	$0.21	$0.58	$0.30

STATEMENTS OF COMPREHENSIVE INCOME

Net Income	$10,004	$6,916	$19,474	$9,766
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $17 and $75 during the three months ended June 30, 2010 and 2009, respectively, and $29 and $807 during the six months ended June 30, 2010 and 2009, respectively	21	89	36	981
Reduction in non-credit component of OTTI charge, net of taxes of $178 and $168 during the three months ended June 30, 2010 and 2009, respectively, and $303 and $168 during the six months ended June 30, 2010 and 2009, respectively	216	204	370	204
Non-credit component of OTTI charge recognized during the period, net of tax benefits of $(5) and $(123) during the three months ended June 30, 2010 and 2009, respectively, and net of tax benefits of $(27) and $(603) during the six months ended June 30, 2010 and 2009, respectively	(8)	(151)	(36)	(735)
Reclassification adjustment for securities sold during the period, net of taxes of $127 during the three months ended June 30, 2010, and $384 and $195 during the six months ended June 30, 2010 and 2009, respectively	(155)	-	(467)	(236)
Net unrealized securities gains arising during the period, net of taxes of $239 and $765 during the three months ended June 30, 2010 and 2009, respectively, and $479 and $3,651 during the six months ended June 30, 2010 and 2009, respectively	291	725	582	4,435
Defined benefit plan adjustments, net of tax benefits of $(535) during the three months ended June 30, 2010, and $(560) during the six months ended June 30, 2010	(650)	-	(680)	-
Comprehensive Income	$9,719	$7,783	$19,279	$14,415

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Six Months Ended June 30,	
	2010	2009
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY		
Common Stock (Par Value $0.01):		
Balance at beginning of period	$511	$511
Balance at end of period	511	511
Additional Paid-in Capital:		
Balance at beginning of period	214,654	213,917
Stock options exercised	165	-
Forfeited restricted stock award shares returned to treasury stock	3	-
Tax (expense) benefit of stock plans	88	(156)
BMP award distribution	(28)	-
BMP reclassification	8,007	-
Amortization of excess fair value over cost – ESOP stock and stock options expense	866	871
Release from treasury stock for restricted stock award shares	47	(842)
Balance at end of period	223,802	213,790
Retained Earnings:		
Balance at beginning of period	306,787	297,848
Net income for the period	19,474	9,766
Cash dividends declared and paid	(9,306)	(9,234)
Cumulative effect adjustment for the adoption of ASC 320-10-65, net of taxes of $1,034	-	1,255
BMP reclassification	133	-
Balance at end of period	317,088	299,635
Accumulated Other Comprehensive Loss, net of tax:		
Balance at beginning of period	(5,082)	(11,111)
Cumulative effect adjustment for the adoption of ASC 320-10-65, net of taxes of $1,034	-	(1,255)
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax	36	981
Non-credit component of OTTI charge recognized during the period, net of tax	(36)	(735)
Reduction in non-credit component of OTTI during the period, net of tax	370	204
Decrease in unrealized loss on available-for-sale securities during the period	115	4,199
Adjustments related to defined benefit plans, net of tax	(680)	-
Balance at end of period	(5,277)	(7,717)
ESOP:		
Balance at beginning of period	(3,701)	(3,933)
Amortization of earned portion of ESOP stock	115	116
Balance at end of period	(3,586)	(3,817)
Unearned Restricted Stock Award Common Stock:		
Balance at beginning of period	(2,505)	(1,790)
Amortization of earned portion of restricted stock awards	607	519
Forfeited restricted stock award shares returned to treasury stock	149	-
Release from treasury stock for restricted stock award shares	(1,824)	(1,745)
Balance at end of period	(3,573)	(3,016)
Treasury Stock, at cost:		
Balance at beginning of period	(207,884)	(210,471)

Forfeited restricted stock award shares returned to treasury stock	(152)	-
Release from treasury stock for restricted stock award shares	1,777	2,587
Balance at end of period	(206,259)	(207,884)
Common Stock Held by BMP:		
Balance at beginning of period	(8,007)	(8,007)
BMP award distribution	28	-
Balance at end of period	(7,979)	(8,007)
TOTAL STOCKHOLDERS' EQUITY	314,727	283,495

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars In thousands)

	Six Months Ended June 30 ,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$19,474	$9,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Net loss on sale of OREO	-	92
Net gain on sale of loans originated for sale	(181)	(635)
Net gain on sale of investment securities available-for-sale	(608)	(431)
Net gain recognized on the transfer of securities from available-for-sale into trading	(242)	-
Net loss on trading securities	65	-
Net depreciation and amortization	1,254	1,310
ESOP compensation expense	489	370
Stock plan compensation (excluding ESOP)	1,099	1,136
Provision for loan losses	7,281	4,892
Provision for losses on OREO	357	-
Provision to increase the liability for loans sold with recourse	-	1,402
Recovery of write down of mortgage servicing asset	-	(60)
OTTI charge for investment securities recognized in earnings	673	5,926
Increase in cash surrender value of Bank Owned Life Insurance	(992)	(994)
Deferred income tax credit	(369)	(4,492)
Excess tax cost (benefit) of stock plans	(88)	156
Changes in assets and liabilities:		
Origination of loans held for sale	(14,927)	(10,370)
Proceeds from sale of loans held for sale	14,832	110,339
(Increase) Decrease in other assets	(1,095)	739
Decrease in other liabilities	(2,559)	(1,812)
Net cash provided by operating activities	24,463	117,334
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in federal funds sold and other short term investments	(41,670)	-
Proceeds from principal repayments of investment securities held-to-maturity	90	144
Proceeds from maturities of investment securities available-for-sale	-	-
Proceeds from calls and principal repayments of investment securities available-for-sale	30,000	-
Proceeds from sales of investment securities available-for-sale	2,527	10,359
Purchases of investment securities available-for-sale	(31,433)	-
Principal collected on mortgage backed securities available-for-sale	40,646	42,367
Purchases of mortgage backed securities available-for-sale	-	-
Net increase in loans	(75,538)	(56,145)
Proceeds from the sale of OREO	368	208
Purchases of fixed assets, net	(1,731)	(601)
Redemption of FHLBNY capital stock	1,015	1,602
Net cash provided by (used in) investing activities	(75,726)	(2,066)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in due to depositors	222,979	33,058

Net increase (decrease) in escrow and other deposits	11,804	(60,318)
Increase in securities sold under agreements to repurchase	(35,000)	-
Increase(Decrease) in FHLBNY advances	10,850	(60,000)
Repayment of subordinated note	(25,000)	_
Cash dividends paid	(9,306)	(9,234)
Exercise of stock options	165	-
Excess tax (cost) benefit of stock plans	88	(156)
Net cash (used in) provided by financing activities	176,580	(96,650)
INCREASE IN CASH AND DUE FROM BANKS	125,317	18,618
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	39,338	211,020
CASH AND DUE FROM BANKS, END OF PERIOD	$164,655	$229,638
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$15,560	$8,189
Cash paid for interest	42,142	54,378
Loans transferred to OREO	320	-
Portfolio loans transferred to held for sale	-	100,000
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	65	120
Reversal of unrealized loss on securities transferred from available-for-sale to held-to-maturity	-	1,668
Net (decrease) increase in non-credit component of OTTI	(610)	3,253
Adjustments to other comprehensive income from defined benefit plans, net of tax	$(680)	-

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS

Dime Community Bancshares, Inc. (the "Holding Company") is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, Dime Community Capital Trust 1 and 842 Manhattan Avenue Corp. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.), DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp. and 195 Havemeyer Corp.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-four full service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank’s principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, one- to four-family residential, construction and land acquisition, and consumer loans, as well as mortgage-backed securities (“MBS”), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities.

2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of June 30, 2010, the results of operations and statements of comprehensive income for the three-month and six-month periods ended June 30, 2010 and 2009, and the changes in stockholders' equity and cash flows for the six months ended June 30, 2010 and 2009. The results of operations for the three-month and six-month periods ended June 30, 2010 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2010. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the SEC.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in the accompanying condensed consolidated financial statements where estimates are significant include the allowance for loan losses, valuation of mortgage servicing rights, asset impairment adjustments related to the valuation of goodwill and OTTI of securities, loan income recognition, the valuation of financial instruments, recognition of deferred tax assets and unrecognized tax benefits and the accounting for defined benefit plans sponsored by the Company.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2009 and notes thereto.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010. the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). ASU 2010-20 requires companies to provide a greater level of disaggregated information regarding: (1)

the credit quality of their financing receivables; and (2) their allowance for credit losses. ASU 2010-20 further requires companies to disclose credit quality indicators, past due information, and modifications of its financing receivables. For public companies, ASU 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. ASU 2010-20 encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. Adoption of ASU 2010-20 is not expected to have a material impact upon the Company's consolidated financial condition or results of operations.

In February 2010, the FASB issued ASU No. 2010-11, "Derivatives and Hedging (Topic 815) – Scope Exception Related to Embedded Credit Derivatives" ("ASU 2010-11"). ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation (separate accounting) requirements, and addresses various accounting issues associated with subordination of one financial instrument to another. ASU 2010-11 affirms that a credit derivative feature related to the transfer of credit risk that is the only form of subordination of one financial instrument to another is not subject to the embedded derivative bifurcation (separate accounting) requirement. Under ASU 2010-11, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may thus need to separately account for the embedded credit derivative feature. In initially adopting ASU 2010-11, an entity may elect the fair value option for any investment in a beneficial interest in a securitized financial asset. The election must be made on an instrument-by-instrument basis at the beginning of the fiscal quarter of initial adoption. However, an entity must perform an impairment analysis of the investment before the initial adoption. ASU 2010-11 is effective at the beginning of an entity’s first fiscal quarter beginning after June 15, 2010. Management is evaluating the impact of adoption of ASU 2010-11.

In January 2010, FASB issued Accounting Standards Update No 2010-06, " Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ("ASU 2010-6"). ASU 2010-6 required new disclosures related to transfers in and out of fair value hierarchy Levels 1 and 2, as well as certain activities for assets whose fair value is measured under the Level 3 hierarchy. ASU 2010-6 also provided amendments clarifying level of disaggregation and disclosures about inputs and valuation techniques along with conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-6 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of ASU 2010-6 has not had, and is not expected to have, a material impact upon the Company's financial condition or results of operations.

In June 2009, the Financial Accounting Standards Board ("FASB') issued amendments to ASC 860-10 which eliminated the concept of a "qualifying special-purpose entity," and changed various requirements for derecognizing transferred financial assets that were previously established under ASC 860. ASC 860-10 also requires increased disclosure related to transferred financial assets, including securitization transactions, as well as other transactions where companies possess continuing exposure to the risks related to financial assets transferred or sold. For the Company, ASC 860-10 was effective for financial asset transfers occurring after January 1, 2010. Adoption of ASC 860-10 did not have a material effect upon the Company's financial position or results of operations.

On April 9, 2009, the FASB issued ASC 320-10-65, which amended the guidance provided under GAAP related to OTTI of debt securities in order to make it more operational. ASC 320-10-65 modifies the technical criteria related to both the recovery of impairment and collectability of cash flows that a reporting entity may employ in order to avoid recognizing OTTI. Under ASC 320-10-65, OTTI that has been determined to exist on debt securities is to be divided between credit and non-credit components, with changes in the credit component recognized in earnings, and changes in the non-credit component recognized in other comprehensive income. In determining the amount of credit-related OTTI to be recognized, ASC 320-10-65 permits the reporting entity to discount the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. ASC 320-10-65 also requires additional disclosures related to all securities owned by the reporting entity. ASC 320-10-65 did not amend existing recognition and measurement guidance related to OTTI of equity securities. ASC 320-10-65 is required to be applied to both existing investments held by the reporting entity at the beginning of the interim period of adoption and all subsequent purchases. For debt securities held at the beginning of the interim period of adoption for which OTTI was previously recognized, the entity recognizes the cumulative effect of adopting ASC 320-10-65 as an adjustment to the opening balance of retained earnings. ASC 320-10-65 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted. The Company elected to early adopt ASC 320-10-65 effective January 1, 2009, reclassifying $1,255 of previously recognized after-tax OTTI out of retained earnings and into accumulated other comprehensive loss as a cumulative effect adjustment, representing the after-tax non-credit component of the previously recognized OTTI.

On April 9, 2009, the FASB issued ASC 820-10-65-4. ASC 820-10-65-4 provides additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, and provides guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65-4 is effective for interim and annual reporting periods ending after June 15, 2009, with earlier adoption permitted. ASC 820-10-65-4 was applied to the methodology utilized by the Company to determine the fair value of its pooled trust preferred securities at December 31, 2009.

4. TREASURY STOCK

The Company did not repurchase any shares of treasury stock during the six months ended June 30, 2010 and 2009. On April 30, 2010, 143,083 shares of the Company's common stock were released from treasury in order to

fulfill benefit obligations under the 2004 Stock Incentive Plan. The closing price of the Company's common stock on that date was $12.75. The shares were released utilizing the average historical cost method.

During the six months ended June 30, 2010, the Company returned 10,176 forfeited restricted stock awards into treasury stock.

5. ACCOUNTING FOR GOODWILL

The Company has designated the last day of its fiscal year as its date for annual impairment testing. The Company performed an impairment test as of December 31, 2009 and concluded that no impairment of goodwill existed. No events or circumstances have changed subsequent to December 31, 2009 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require the immediate performance of an impairment test in accordance with ASC 350.

6. EARNINGS PER SHARE ("EPS")

EPS is calculated and reported in accordance with ASC 260. For entities like the Company with complex capital structures, ASC 260 requires disclosure of basic EPS and diluted EPS on the face of the income statement, along with a reconciliation of their numerators and denominators.

Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding during the period (weighted-average common shares are adjusted to exclude unallocated ESOP shares). Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

The following is a reconciliation of the numerators and denominators of basic EPS and diluted EPS for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands)			
Numerator:				
Net Income per the Consolidated Statements of Operations	$10,004	$6,916	$19,474	$9,766
Denominator:				
Weighted-average number of shares outstanding utilized in the calculation of basic EPS	33,244,218	33,024,176	33,206,948	32,954,016
Common stock equivalents resulting from the dilutive effect of "in-the-money" outstanding stock options	111,402	4,527	101,956	4,906
Anti-dilutive effect of tax benefits associated with "in-the-money" outstanding stock options	(13,735)	(2,149)	(13,203)	(2,816)
Weighted average number of shares outstanding utilized in the calculation of diluted EPS	33,341,885	33,026,554	33,295,701	32,956,106

Common stock equivalents resulting from the dilutive effect of "in-the-money" outstanding stock options are calculated based upon the excess of the average market value of the Holding Company's common stock over the exercise price of outstanding in-the-money stock options during the period.

There were 2,666,287 and 3,104,037 weighted-average stock options outstanding for the three-month periods ended June 30, 2010 and 2009, respectively, that were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period. There were 2,699,614 and 3,104,037 weighted-average stock options outstanding for the six-month periods ended June 30, 2010 and 2009, respectively, that were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three-month and six-month periods ended June 30, 2010 and 2009, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees; the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees; and the 2004 Stock Incentive Plan (collectively the "Stock Plans"), which are discussed more fully in Note 15 to the Company's audited consolidated financial statements for the year ended December 31, 2009, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

Stock Option Awards

Combined activity related to stock options granted under the Stock Plans during the periods presented was as follows:

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands, Except per Share Amounts)			
Options outstanding – beginning of period	3,258,771	3,116,564	3,266,920	3,116,564
Options granted	97,294	205,633	97,294	205,633
Weighted average exercise price of grants	$12.75	$8.34	$12.75	$8.34
Options exercised	19,331	-	19,331	-
Weighted average exercise price of exercised options	8.53	-	8.53	-
Options forfeited	8,750	3,062	16,899	3,062
Weighted average exercise price of forfeited options	$13.74	$14.87	$14.30	$14.87
Options outstanding – end of period	3,327,984	3,319,135	3,327,984	3,319,135
Weighted average exercise price of outstanding options at the end of period	$14.54	$14.56	$14.54	$14.56
Remaining options available for grant	553,738	724,290	553,738	724,290
Exercisable options at end of period	2,860,928	2,591,130	2,860,928	2,591,130
Weighted average exercise price of exercisable options at the end of period	$14.86	$15.16	$14.86	$15.16
Cash received for option exercise cost	165	-	165	-
Income tax benefit recognized	20	-	20	-
Compensation expense recognized	254	307	491	617
Remaining unrecognized compensation expense	1,174	1,807	1,174	1,807
Weighted average remaining years for which compensation expense is to be recognized	2.0	2.3	2.0	2.3

The range of exercise prices and weighted-average remaining contractual lives of options outstanding, vested and unvested, under the Stock Plans were as follows:

Outstanding Options as of June 30, 2010				
Range of Exercise Prices	Amount	Weighted Average Exercise Price	Weighted Average Contractual Years Remaining	Vested Options as of June 30, 2010
$8.00 - $8.50	187,709	$8.34	8.8	86,695
10.50 - $$11.00	376,694	10.91	1.4	376,694
12.50 - $$13.00	97,294	12.75	9.8	-
$13.01-$13.50	526,566	13.16	2.6	526,566
$13.51-$14.00	930,125	13.74	6.8	709,125
$14.50-$15.00	34,425	14.92	7.7	17,212
$15.01-$15.50	318,492	15.10	4.9	318,492
$16.00-$16.50	76,320	16.45	4.6	76,320
$16.51-$17.00	61,066	16.73	8.1	30,531

$18.00-$18.50	80,000	18.18	7.9	80,000
$19.50-$20.00	639,293	19.90	3.6	639,293
Total	3,327,984	$14.54	4.9	2,860,928

The weighted average exercise price and contractual years remaining for vested options under the Stock Plans were $14.86 and 4.4 years, respectively, at June 30, 2010. The weighted average fair value per option at the date of grant for stock options granted was estimated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Total options granted	97,294	205,633	97,294	205,633
Estimated fair value on date of grant	$3.70	$1.73	$3.70	$1.73
Pricing methodology utilized	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Expected life (in years)	5.99	5.99	5.99	5.99
Interest rate	2.76 %	2.39 %	2.76 %	2.39 %
Volatility	43.69	41.34	43.69	41.34
Dividend yield	4.39	6.72	4.39	6.72

Other Stock Awards

Restricted Stock Awards – The Company, from time to time, issues restricted stock awards to outside directors and officers under the 2004 Stock Incentive Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four- or five-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Stock Incentive Plan during the periods indicated:

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands)			
Unvested allocated shares – beginning of period	275,823	135,710	295,066	141,710
Shares granted	143,083	207,197	143,083	207,197
Shares vested	86,040	46,810	95,107	52,810
Shares forfeited	-	1,031	10,176	1,031
Unvested allocated shares – end of period	332,866	295,066	332,866	295,066
Unallocated shares - end of period	-	-	-	-
Compensation recorded to expense	$353	$288	$608	$520
Income tax (expense) benefit recognized	73	(156)	68	(156)

8. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for loans owned by the Bank were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands)			
Balance at beginning of period	$24,620	$18,351	$21,505	$17,454
Provision for loan losses	3,834	2,252	7,281	4,892

Charge-offs	(5,024)	(528)	(5,793)	(2,404)
Recoveries	-	-	-	-
Transfer from (to) reserves on loan commitments	(80)	(84)	357	49
Balance at end of period	$23,350	$19,991	$23,350	$19,991

Management's quarterly evaluation of the loan loss reserves considers not only performance of the current owned and serviced loan portfolios, but also general credit conditions and volume of new business, in determining the timing and amount of any future credit loss provisions. The increase in the provision for loan losses during the three-month and six-month periods ended June 30, 2010 compared to the three-month and six-month periods ended June 30, 2009 reflected the ongoing challenging conditions in the Company's local real estate marketplace, as well as a large charge-off experienced on a problem borrower relationship during the three and six months ended June 30, 2010.

9. FIRST LOSS EXPOSURE ON SERVICED LOANS

From December 2002 through February 2009, the Bank sold multifamily loans to Fannie Mae ("FNMA"). Pursuant to the sale agreement, the Bank retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position"). The Bank has established a liability account for estimated future losses in connection with the First Loss Position. In determining the estimate of probable future losses, the Bank utilizes a methodology similar to that used in the calculation of its allowance for loan losses on portfolio loans. For all performing loans within the FNMA serviced pool, the liability recorded is the present value of the estimated future losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated future losses are determined in a manner similar to impaired or classified loans within the Bank's loan portfolio.

The following is a summary of the aggregate balance of multifamily loans serviced for FNMA, the period-end balance of the total First Loss Position associated with these loans, and activity related to the liability established for the First Loss Position:

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousand)			
Outstanding balance of multifamily loans serviced for FNMA at period end	$404,518	$477,733	$404,518	$477,733
Total First Loss Position at end of period	18,697	21,865	18,697	21,865
Liability Against the Total First Loss Position				
Balance at beginning of period	$4,221	$3,963	$4,373	$5,573
Additions for loans sold during the period	-	-	-	-
Transfer out for serviced loans re-acquired by the Bank	(1,123)	(414)	(1,123)	(3,439)
(Credit) Provision for losses on problem loans(1)	-	(21)	-	1,402
Charge-offs and other net reductions in balance	(105)	(69)	(257)	(77)
Balance at period end	$2,993	$3,459	$2,993	$3,459

(1) Amount recognized as a component of mortgage banking income during the period.

During both the three-month and six-month periods ended June 30 2010, the Bank received approval from FNMA to reduce the total First Loss Position by $1.5 million for losses incurred. During the quarter ending September 30, 2010, the Bank expects to request approval from FNMA to reduce the First Loss Position by an additional $1.8 million for losses incurred on loans sold during the three months ended June 30, 2010.

The Bank has elected to periodically repurchase either problematic or non-problematic loans from within the FNMA serviced loan pool in order to expedite their resolution and control losses. During the three months ended June 30, 2010, the Bank re-acquired twelve loans within the pool of loans serviced for FNMA having an aggregate principal balance of $17.2 million. Upon re-acquisition, aggregate liabilities of $1.1 million that were recorded related to problematic loans within the liability for the First Loss Position served to reduce the outstanding principal balance of the loans (reflecting a write-down of their outstanding principal balance to the lower of the current appraised or estimated disposal value of the underlying collateral). During the three months ended June 30, 2009, the Bank re-acquired ten problematic loans within the pool of loans serviced for FNMA having an aggregate principal balance of $15.5 million. Upon re-acquisition, aggregate liabilities of $414,000 that were recorded related to these loans within the liability for the First Loss Position served to reduce the outstanding principal balance of the loans (reflecting a write-down of their outstanding principal balance to the lower of the current appraised or estimated disposal value of the underlying collateral). During the six months ended June 30, 2010, the Bank re-acquired fifteen loans within the pool of loans serviced for FNMA (primarily problematic loans) having an aggregate principal balance

of $19.3 million. Upon re-acquisition, aggregate liabilities of $1.1 million that were recorded related to problematic loans within the liability for the First Loss Position served to reduce the outstanding principal balance of the loans (reflecting a write-down of their outstanding principal balance to the lower of the current appraised or estimated disposal value of the underlying collateral). During the six months ended June 30, 2009, the Bank re-acquired fourteen problematic loans within the pool of loans serviced for FNMA having an aggregate principal balance of $24.2 million. Upon re-acquisition, aggregate liabilities of $3.4 million that were recorded related to these loans within the liability for the First Loss Position served to reduce the outstanding principal balance of the loans (reflecting a write-down of their outstanding principal balance to the lower of the current appraised or estimated disposal value of the underlying collateral).

10. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following is a summary of major categories of securities owned by the Company at June 30, 2010:

			Unrealized Gains or Losses Recognized in Accumulated Other Comprehensive Loss					
	Purchase Amortized / Historical Cost	Recorded Amortized/ Historical Cost (1)	Non-Credit OTTI	Unrealized Gains	Unrealized Losses	Book Value	Other Unrealized Losses	Fair Value
	(Dollars in Thousands)							
Held-to-Maturity:								
Pooled bank trust preferred securities	$ 19,460	$ 13,014	$ (3,814)	-	$ (2,035)(2)	$ 7,165	$ (2,076)	$ 5,089
Available-for-sale:								
Mutual fund investments	4,915	3,490	-	473	(55)	3,908	-	3,908
Agency notes	36,901	36,901	-	148	(1)	37,048	-	37,048
Pass-through MBS issued by GSEs	125,897	125,897	-	7,078	-	132,975		132,975
Collateralized mortgage obligations ("CMOs") issued by GSEs	45,045	45,045	-	1,472	-	46,517	-	46,517
Private issuer pass through MBS	2,692	2,692	-	-	(101)	2,591	-	2,591
Private issuer CMOs	2,592	2,592	-	48	-	2,640	-	2,640
Total	$ 237,502	$ 229,631	$ (3,814)	$ 9,219	$ (2,192)	$ 232,844	$ (2,076)	$ 230,768

(1) Amount represents the purchase amortized / historical cost less any credit-related OTTI charges recognized through earnings.
(2) Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on
September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

The pooled bank trust preferred securities held-to-maturity had a weighted average term to maturity of 24.5 years at June 30, 2010.

At June 30, 2010, the agency note investments in the above table had contractual maturities as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in Thousands)	
Due after one year through five years	$36,001	$36,143
Due after five years through ten years	900	905
	$36,901	$37,048

At June 30, 2010, MBS available-for-sale (which include pass-through MBS issued by GSEs, CMOs issued by GSEs, private issuer pass through MBS and private issuer CMOs) possessed a weighted average contractual maturity of 17.1 years and a weighted average estimated duration of 2.3 years. There were no sales of MBS available-for-sale during the six-months ended either June 30, 2010 or June 30, 2009.

Proceeds from the sales of investment securities available-for-sale (which include mutual funds and agency notes) were $2.5 million during the six months ended June 30, 2010. Gains of $850,000 was recognized on these sales. During the six months ended June 30, 2009, proceeds from the sales of investment securities available-for-sale totaled $10.4 million. A gain of $431,000 was recognized on these sales. There were no sales of investment securities held-to-maturity during the six-months ended either June 30, 2010 or June 30, 2009.

On March 31, 2010, the Company transferred six mutual fund investments totaling $1.4 million from available-for-sale to trading. On the date of transfer, unrealized holding gains totaling $242,000 on these investments were recognized. This transfer is discussed further later in this note. During the three months ended June 30, 2010, the Company recognized aggregate losses of $65,000 on these mutual funds reflecting a decline in their valuation. Proceeds from the sale of trading securities totaled $659,000 during the six months ended June 30, 2010, all of which occurred during the three months ended June 30, 2010.

At June 30, 2010, in management’s judgment, the credit quality of the collateral pool underlying six of the Company's eight pooled bank trust preferred securities had deteriorated to the point that full recovery of the Company’s initial investment was considered uncertain, thus resulting in recognition of OTTI charges. At June 30, 2010, five of these six securities had credit ratings ranging from "C" to "Ba3." The sixth of these securities had credit ratings ranging from "D" to "Caa3."

For the six pooled bank trust preferred securities that were deemed to meet the OTTI criteria established under ASC 320-10-65, the Company applied the ASC 320-10-65 provisions for determining the credit related component of OTTI by discounting the expected future cash flows applicable to the securities at the effective interest rate implicit in the security at the date of acquisition by the Company.

The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's trust preferred securities:

	At or for the Three Months Ended June 30, 2010			At or for the Three Months Ended June 30, 2009		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI
	(Dollars in Thousands)					
Cumulative balance at the beginning of the period	$5,937	$ 4,196	$10,133	$2,899	$ 3,351	$6,250
OTTI recognized during the period	508	13	521	886	274	1,160
Reductions and transfers to non-credit OTTI	-	(365)	(365)	-	(354)	(354)
Amortization of previously recognized OTTI	-	(29)	(29)	-	(18)	(18)
Cumulative balance at end of the period	$6,445	$ 3,815	$10,260	$3,785	$ 3,253	$7,038

	At or for the Six Months Ended June 30, 2010			At or for the Six Months Ended June 30, 2009		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI
	(Dollars in Thousands)					
Cumulative balance at the beginning of the period	$ 5,772	$ 4,425	$ 10,197	$ 3,209	$ -	$ 3,209
Cumulative effect adjustment of adopting FSP 115-2	-	-	-	(2,287)	2,287	-
OTTI recognized during the period	673	63	736	2,863	1,338	4,201
Reductions and transfers to non-credit OTTI	-	(619)	(619)	-	(354)	(354)
Amortization of previously recognized OTTI	-	(54)	(54)	-	(18)	(18)

Cumulative balance at end of the period	$ 6,445	$ 3,815	$ 10,260	$ 3,785	$ 3,253	$ 7,038

The remaining aggregate amortized cost of pooled bank trust preferred securities that could be subject to future OTTI charges through earnings was $13.0 million at June 30, 2010. Of this total, unrealized losses of $5.8 million have already been recognized as a component of accumulated other comprehensive loss.

During the six months ended June 30, 2009, the Company recognized aggregate credit-related OTTI charges of $3.1 million on five actively-managed equity mutual fund investments, reflecting both the significant deterioration in the valuation of the U.S. and international equity markets at that time, as well as the extended duration of the decline. All of these funds were highly correlated to broader equity indices, and, as a result, experienced significant recoveries in their market value during the period April 2009 through March 2010. In March 2010, the Company sold a portion of one of the five mutual fund investments, recovering $685,000 of the apportioned OTTI charges previously recognized on these fund shares.

The Company owned four additional mutual fund investments at June 30, 2010. These assets are earmarked for the payment of benefits earned by participants in the BMP. Modifications made to the BMP in March 2010 impacted the potential form of future benefit payments under the plan (which was frozen to all future benefits effective January 1, 2005 and currently remains frozen). As a result, the Company elected to transfer a portion of four mutual fund investments that are earmarked for future settlement of non-qualified 401(k) Plan defined contribution benefits earned under the BMP from available-for-sale into trading effective March 31, 2010. The Company simultaneously transferred two additional mutual fund balances that are similarly earmarked for payment of non-qualified 401(k) benefits earned under the BMP, which were never deemed to meet the criteria of OTTI, from available-for-sale into trading. Commencing on April 1, 2010, the transfer of these six mutual funds produced an offset within the Company's operating results for any required changes in future BMP benefit expense caused by fluctuations in the market value of these earmarked investments. As a result of the transfer from available-for-sale into trading, approximately $336,000 of previously recognized credit-related OTTI on these investments was recovered.

The portion of the Company's investment in the initial four mutual funds discussed in the previous paragraph that were not transferred into trading are earmarked for future settlement of non-qualified pension benefits earned under the BMP. These benefits were not affected by the March 2010 modifications to the BMP, and they thus remained designated as available-for-sale. The recovery of their apportioned OTTI charges from March 31, 2009 through June 30, 2010 thus remains unrealized as a component of accumulated other comprehensive income.

The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's equity mutual funds:

	At or for the Three Months Ended June 30, 2010			At or for the Three Months Ended June 30, 2009		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
	(Dollars in Thousands)					
Cumulative balance at the beginning of the period	$2,042	$ -	$2,042	$3,063	$ -	$3,063
OTTI recognized during the period	-	-	-	-	-	-
Recovery of OTTI for securities sold during the period	(617)	-	(617)	-	-	-
Cumulative balance at end of the period	$1,425	$ -	$1,425	$3,063	$ -	$3,063

	At or for the Six Months Ended June 30, 2010			At or for the Six Months Ended June 30, 2009		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
	(Dollars in Thousands)					
Cumulative balance at the beginning of the period	$3,063	$ -	$3,063	$-	$ -	$-
OTTI recognized during the period	-	-	_	3,063	-	3,063
Recovery of OTTI for securities sold during the period	(1,302)	-	(1,302)	-	-	-
Recovery of OTTI for securities transferred to trading during the period	(336)	-	(336)			
Cumulative balance at end of the period	$1,425	$ -	$1,425	$3,063	$ -	$3,063

The following table summarizes the gross unrealized losses and fair value of investment securities and MBS as of June 30, 2010, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

	Total		12 or More Consecutive Months of Unrealized Losses		Less than 12 Consecutive Months of Unrealized Losses	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Held-to-Maturity Securities:						
Pooled bank trust preferred securities (1)	$ 5,089	$ 7,925	$ 5,089	$ 7,925	$ -	$ -
Available-for-Sale Securities:					-	-
Agency notes	6,000	1	-	-	6,000	1
Mutual funds	689	40	-	-	689	40
Private issuer pass through MBS	2,591	101	2,591	101	-	-
Total	$ 14,369	$ 8,067	$ 7,680	$ 8,026	$ 6,689	$ 41

(1) At June 30, 2010, the recorded balance of these securities was $7.2 million. This balance reflected both the remaining unrealized loss of $2.1 million that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity) for two trust preferred securities that have not been deemed OTTI, and an unrealized loss of $4.2 million that has been recognized in accumulated other comprehensive loss that represents the non-credit component of impairment for five trust preferred securities that have been deemed OTTI. In accordance with both ASC 320-10-35-17 and ASC 320-10-65, these unrealized losses are currently being amortized over the remaining estimated life of these securities.

Trust Preferred Securities That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

At June 30, 2010, two of the Company's eight pooled bank trust preferred securities, with an amortized cost of $7.5 million, were not deemed other than temporarily impaired. These securities remained in an unrealized loss for 12 or more consecutive months, and their cumulative unrealized loss was $2.1 million at June 30, 2010, reflecting both illiquidity in the marketplace and concerns over future bank failures. At June 30, 2010, both of the securities had an investment grade rating from at least one independent rating agency, with ratings ranging from "BB" to "A" on one and "B" and "Baa3" on the other. Despite both the significant decline in market value and the duration of their impairment, management believes that the unrealized losses on these securities at June 30, 2010 were temporary, and that the full value of the investments will be realized once the market dislocations have been removed, or as the securities continue to make their contractual payments of principal and interest. In making this determination, management considered the following:

• Based upon an internal review of the collateral backing the trust preferred securities portfolio, which accounted for current and prospective deferrals, each of the securities could reasonably be expected to continue making all contractual payments
• The Company has the intent and ability to hold these securities until they fully recover their impairment, evidenced by the election to reclassify them as held-to-maturity in 2008
• There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell any of these securities prior to their forecasted recovery or maturity
• Each security has a pool of underlying issuers comprised primarily of banks
• None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
• Each security features either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
• Each security is characterized by some level of over-collateralization

The remaining six trust preferred securities, with an aggregate amortized cost of $5.5 million at June 30, 2010, have previously been determined to meet the OTTI criteria.

Private Issuer Pass Through MBS and CMOs That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

At June 30, 2010, the Company owned one private label pass-through MBS that possessed unrealized losses for 12 or more consecutive months, with an amortized cost of $2.7 million and an unrealized loss of $101,000. The Company's investment is in the most senior tranche (or repayment pool) of this security. Despite a challenging real estate marketplace, the private label pass-through MBS made contractual principal and interest payments that reduced its principal balance by approximately 29% during the twelve months ended June 30, 2010. At June 30, 2010, the Company performed an analysis of likely potential defaults of the real estate loans underlying this security in the current economic environment, and determined that this security could reasonably be expected to continue making all contractual payments. The Company has no intent to sell this security and it is not likely that the Company will be required to sell this security before the recovery of its remaining amortized cost.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted ASC 820-10 on January 1, 2008. The fair value hierarchy established under ASC 820-10 is summarized as follows:

Level 1 Inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs – Unobservable inputs for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the condensed consolidated statements of financial condition at fair value as of June 30, 2010 by level within the fair value hierarchy. As required by ASC 820-10, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2010							
		Fair Value Measurements Using					
Description	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Losses for the Three Months Ended June 30, 2010	Losses for the Six Months Ended June 30, 2010	
			(Dollars in Thousands)				
Trading securities	$1,329	$1,329	$-	$-	$65	$65	(1)
Investment securities available-for-sale	40,956	3,908	37,048	-	-	-	
MBS available-for-sale	184,723	-	184,723	-	-	-	

(1) The Company recognized a gain of $242 upon the transfer of these securities from available-for-sale to trading on March 31, 2010.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2009						
		Fair Value Measurements Using				
Description	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Losses for the Six Months Ended June 30, 2009	
			(Dollars in Thousands)			
Investment securities available-for-sale	$ 6,540	$ 5,534	$ 1,006	$ -	$ 3,063	(1)
MBS available-for-sale	263,515	-	263,515	-	-	

(1) This loss was fully incurred during the three months ended March 31, 2009.

The Company's trading securities and available-for-sale investment securities and MBS are reported at fair value, which is determined utilizing prices obtained from independent parties. The valuations obtained are based upon market data, and often utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (obtained only from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. Prioritization of inputs may vary on any given day based on market conditions.

The Company's trading securities are registered, actively-traded mutual funds that satisfy the criteria for Level 1 valuation. The Company's available-for-sale investment securities and MBS at June 30, 2010 were categorized as follows:

Investment Category	Percentage of Total	Valuation Level Under ASC 820-10
Pass Through MBS or CMOs issued by GSEs	79.5%	Two
Agency notes	16.5	Two
Pass Through MBS or CMOs issued by entities other than GSEs	2.3	Two
Mutual fund investments	1.7	One

The agency notes owned by the Company possessed the highest possible credit rating published by multiple established credit rating agencies as of June 30, 2010. Obtaining a market value as of June 30, 2010 for these securities utilizing significant observable inputs as defined under ASC 820-10 was not difficult due to their continued marketplace demand. The pass-through MBS and CMOs issued by GSEs, which comprised approximately 79.5% of the Company's total available-for-sale investment securities and MBS at June 30, 2010, all possessed the highest possible credit rating published by multiple established credit rating agencies as of June 30, 2010. Obtaining a market value as of June 30, 2010 for these securities utilizing significant observable inputs as defined under ASC 820-10 was not difficult due to their considerable demand. In accordance with established policies and procedures, the Company utilized a midpoint value obtained as its recorded fair value for securities that were valued with significant observable inputs.

As of June 30, 2010, the Company owned one pass through MBS issued by an entity other than a GSE, with an amortized cost basis of $2.7 million. Since 2008, this security has not traded actively. The Company owns an investment within the senior tranche of this security, and the weighted average contractual interest rate on the security was 5.0% at June 30, 2010. The assets underlying this security are a pool of 15-year fixed rate amortizing prime mortgages on residential properties located throughout the United States. The underlying mortgages were originated in 2005, and, as of June 30, 2010, had a weighted average coupon of 5.33% and a weighted average loan-to-value ratio of 48%. There is no significant geographical concentration on the underlying mortgages, and less than 9% of the total underlying mortgage pool was delinquent at June 30, 2010. The credit ratings on this security ranged from CC to Ba1 at June 30, 2010. As a result of the overall credit quality of this investment, sufficient marketplace demand was deemed present at June 30, 2010 to permit this security to be valued utilizing estimated sales determined under benchmarking and matrix pricing. For this security, the Company obtained such values from at least two credible market sources, and verified that these values were prepared utilizing significant observable inputs as defined under ASC 820-10.

As of June 30, 2010, the Company owned one CMO issued by an entity other than a GSE, with an amortized cost basis of $2.6 million. Since 2008, this security has not traded actively. The Company owns an investment within the senior tranche of this security, and the weighted average contractual interest rate on the security was 4.5% at June 30, 2010. The assets underlying this security are a pool of 15-year fixed rate amortizing prime mortgages on residential properties located throughout the United States. The underlying mortgages were originated in 2003, and, as of June 30, 2010, had a weighted average coupon of 5.38% and a weighted average loan-to-value ratio of 33%. Approximately one-half of the underlying mortgages are located in California, while the remaining half are diversified geographically. Less than 1% of the total underlying mortgage pool was delinquent at June 30, 2010. This security possessed the highest possible credit rating published by multiple established credit rating agencies at June 30, 2010. As a result of the overall credit quality of this investment, sufficient marketplace demand was deemed present at June 30, 2010 to permit this security to be valued utilizing estimated sales determined under benchmarking and matrix pricing. For this security, the Company obtained such values from at least two credible market sources, and verified that these values were prepared utilizing significant observable inputs as defined under ASC 820-10.

Assets Measured at Fair Value on a Non-Recurring Basis at June 30, 2010

Description	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Losses for the Three Months Ended June 30, 2010	Losses for the Six Months Ended June 30, 2010
	Fair Value Measurements Using					
	(Dollars in Thousands)					
Pooled trust preferred securities	$ 181 (1)	$ -	$ -	$ 181	$ 521 (2)	$ 736 (2)
Impaired loans	29,515	-	-	29,515	5,019 (3)	5,720 (3)

(1) Amount represents the fair value of two held-to-maturity trust preferred securities that were deemed other-than temporarily impaired at June 30, 2010.
(2) Amount represents the total OTTI (credit or non-credit related) recognized on trust preferred securities during the three-month and six-month periods ended June 30, 2010.
(3) Amount represents total charge-offs on impaired loans during the three-month and six-month periods ended June 30, 2010.

Assets Measured at Fair Value on a Non-Recurring Basis at June 30, 2009

Description	Total at June 30, 2009	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Losses for the Three Months Ended June 30, 2009	Losses for the Six Months Ended June 30, 2009
	Fair Value Measurements Using					
	(Dollars in Thousands)					
Pooled trust preferred securities	$1,695 (1)	$-	$-	$1,695	$1,160 (1)	$4,201 (1)
Impaired loans	5,861	-	-	5,861	104 (2)	770 (2)
Loans held for sale carried at market value	55	-	55	-	1	1

(1) Amount represents the fair value of four held-to-maturity trust preferred securities that were deemed other-than temporarily impaired at
June 30, 2009. Losses represent the total OTTI recognized (credit or non-credit related) during the period.

(2) Amount represents charge-offs recognized on these loans during the three-month and six-month periods ended June 30, 2009.

Pooled Trust Preferred Securities, Held to Maturity - At June 30, 2010, the Company owned eight pooled trust preferred securities classified as held-to-maturity. Late in 2008, the market for these securities became highly illiquid, and continued to be deemed as such as of June 30, 2010. As a result, at both June 30, 2010 and June 30, 2009, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing). Under the blended valuation approach, broker quotations, which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4, were given a minor 10% weighting. A cash flow valuation for the eight securities performed utilizing default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation") was given a 45% weighting. This valuation considered the creditworthiness of each individual issuer underlying the collateral pools of the eight securities. In addition, for five of the eight securities, three independent cash flow model valuations were averaged and given a 45% weighting. For the remaining three securities, two independent cash flow valuations were available and were similarly given a 45% weighting.

The major assumptions utilized (each of which represents a significant unobservable input) in the Internal Cash Flow Valuation were as follows:

Discount rate – The discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split investment rating, separate cash flow valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation.

Defaults - All underlying issuers with a Fitch bank rating of 5.0 were assumed to default. Underlying issuers with a Fitch bank rating of 3.5 through 4.5 were assumed to default at levels ranging from 5% to 75% based upon both their rating as well as whether they had been granted approval to receive funding under the U.S. Department of Treasury's Troubled Asset Relief Program Capital Purchase Program.

Cash flows – The actual cash flows for the Company's investment tranche of each security, adjusted to assume that all estimated defaults occurred on July 1, 2010, with an estimated recovery rate of 6% projected to occur one year after the initial default.

Two of the three independent cash flow model valuations discussed above were made utilizing a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions deriving estimated cash flows, individual bank defaults and discount rate. The third independent cash flow valuation was derived from a different methodology in which the actual cash flow estimate based upon the underlying collateral of the securities (including default estimates) was not considered. Instead, this cash flow valuation was determined utilizing a discount rate determined from the Bloomberg fair market value curve for similar assets that continued to trade actively, with adjustments made for the illiquidity of the pooled trust preferred market. Because of the significant judgment underlying each of the pricing assumptions, management elected to recognize each of the independent valuations and apply a weighting system to all of the valuations, including the Internal Cash Flow Valuation, as all of these valuations were determined utilizing a valid and objective pricing methodology.

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired under ASC 310-10-35 when, based upon existing information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at June 30, 2010 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral. Fair value is estimated through current appraisals, where practical, or a drive-by inspection and comparison of the collateral with similar properties in the area by either a licensed appraiser or real estate broker and adjusted as deemed necessary by management to reflect existing market conditions.

OREO – The fair value of OREO is determined utilizing the lower of an independent appraised or estimated disposal value of the property.

Financial Instruments Not Actively Traded - Quoted market prices available in active trading marketplaces are generally recognized as the best evidence of fair value of financial instruments, however, several of the Company's financial instruments are not bought or sold in active trading marketplaces. Accordingly, their fair values are derived or estimated based on a variety of alternative valuation techniques. All such fair value estimates are based on relevant market information about the financial instrument. These estimates do not reflect any possible tax ramifications, estimated transaction costs, or potential premium or discount that could result from a one time sale of the entire holdings of a particular financial instrument. In addition, the estimates are based on assumptions of future loss experience, current economic conditions, risk characteristics, and other such factors. These assumptions are subjective in nature and involve inherent uncertainty. Changes in these assumptions could significantly affect the estimates.

Methods and assumptions used to estimate fair values for financial instruments that are not valued utilizing formal marketplace quotations (other than those previously discussed) are summarized as follows:

Cash and Due From Banks - The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due.

FHLBNY Capital Stock – It is not practicable to determine the fair value of FHLBNY capital stock due to restrictions placed on transferability.

Loans, Net - The fair value of loans receivable is determined by discounting anticipated future cash flows of the loans, net of anticipated prepayments, using a discount rate reflecting current market rates for loans with similar terms. This methodology is applied to all loans, inclusive of non-accrual loans, as well as impaired loans for which a write-down to the current fair market value of the underlying collateral is not determined to be warranted (generally loans that are sufficiently collateralized). In addition, the valuation of loans reflects the consideration of sale pricing for loan types that have traditionally been subject to marketplace sales (over 80% of the outstanding loan portfolio). Due to significant market dislocation, the secondary market prices were given little weighting in deriving the loan valuation at June 30, 2010.

Deposits - The fair value of savings, money market, and checking accounts is assumed to be their carrying amount. The fair value of certificates of deposit ("CDs") is based upon the present value of contractual cash flows using current interest rates for instruments of the same remaining maturity.

Escrow and Other Deposits - The estimated fair value of escrow and other deposits is assumed to be their carrying amount payable.

Securities Sold Under Agreements to Repurchase and FHLBNY Advances - The fair value is measured by the discounted anticipated cash flows through contractual maturity or next interest repricing date, or an earlier call date if, as of the valuation date, the borrowing is expected to be called. The carrying amount of accrued interest payable is its fair value.

Commitments to Extend Credit - The fair value of commitments to extend 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 interest rates and the committed rates.

Based upon the aforementioned valuation methodologies, the estimated carrying amount and estimated fair values of all of the Company's financial instruments were as follows:

At June 30, 2010	Carrying Amount	Fair Value
	(Dollars in Thousands)	
Assets:		
Cash and due from banks	$164,655	$164,655
Federal funds sold and other short term investments	45,455	45,455
Investment securities held to maturity (pooled trust preferred securities)	7,165	5,089
Available-for-sale securities:		
Mutual fund investments	3,908	3,908
Agency notes	37,048	37,048
Pass-through MBS issued by GSEs	132,975	132,975
CMOs issued by GSEs	46,517	46,517
Private issuer pass-through MBS	2,591	2,591
Private issuer CMOs	2,640	2,640
Trading securities	1,329	1,329
Loans, net	3,441,691	3,583,696
Loans held for sale	692	700
Mortgage Servicing Rights ("MSR")	2,361	3,102
FHLBNY capital stock	53,068	N/A
Liabilities:		
Savings, money market and checking accounts	1,322,371	1,322,371
CDs	1,117,444	1,133,638
Escrow and other deposits	77,699	77,699
Securities sold under agreements to repurchase	195,000	219,708
FHLBNY advances	1,020,525	1,070,482
Trust Preferred securities payable1	70,680	58,664
Commitments to extend credit	335	335

1 The fair value of these liabilities is measured by independent market quotations obtained based upon transactions occurring in the market as of the disclosure date.

12. RETIREMENT AND POSTRETIREMENT PLANS

The Holding Company or the Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), the Retirement Plan for Board Members of Dime Community Bancshares, Inc. (the "Outside Director Retirement Plan"), the BMP, and the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh ("Postretirement Plan"). Net expenses associated with these plans were comprised of the following components:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	BMP, Employee and Outside Director Retirement Plans	Postretirement Plan	BMP, Employee and Outside Director Retirement Plans	Postretirement Plan
	(Dollars in thousands)			
Service cost	$-	$ 29	$-	$ 29
Interest cost	358	79	340	76
Actuarial adjustment to prior period interest cost and amortization	353	-	-	-
Expected return on assets	(347)	-	(297)	-
Unrecognized past service liability	-	14	-	14
Amortization of unrealized loss	263	-	291	-
Net periodic cost	$627	$ 122	$334	$ 119

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	BMP, Employee and Outside Director Retirement Plans	Postretirement Plan	BMP, Employee and Outside Director Retirement Plans	Postretirement Plan
	(Dollars in thousands)			
Service cost	$-	$ 58	$-	$ 58
Interest cost	715	158	680	152
Actuarial adjustment to prior period interest cost and amortization	353	-	-	-
Expected return on assets	(694)	-	(594)	-
Unrecognized past service liability	-	28	-	28
Amortization of unrealized loss	526	-	582	-
Net periodic cost	$900	$ 244	$668	$ 238

The Company disclosed in its consolidated financial statements for the year ended December 31, 2009 that it expected to make contributions or benefit payments totaling $205,000 to the BMP, $131,000 to the Outside Director Retirement Plan, and $153,000 to the Postretirement Plan during the year ending December 31, 2010. The Company made

benefit payments of $65,000 to the Outside Director Retirement Plan during the six months ended June 30, 2010, and expects to make an additional $65,000 of contributions or benefit payments during the remainder of 2010. The Company made net contributions totaling $51,000 to the Postretirement Plan during the six months ended June 30, 2010, and expects to make the remainder of the estimated $153,000 of net contributions or benefit payments during 2010. The Company made no contributions to the BMP during the six months ended June 30, 2010. The Company does not expect to make any benefit payments from or contributions to the BMP during the remainder of 2010, since anticipated retirements that formed the basis for the expected benefit payments in 2010 are presently not expected to occur.

The Company disclosed in its consolidated financial statements for the year ended December 31, 2009 that it did not expect to make any contributions to the Employee Retirement Plan during 2010. Upon a review of projected future benefits and projected asset returns, the Company made a contribution of $2.1 million to the Employee Retirement Plan in June 2010. The Company does not expect to make any further contributions to the Employee Retirement Plan during the remainder of 2010.

13. INCOME TAXES

The Company's customary consolidated tax rate approximates 37% and approximated that rate during the three months ended June 30, 2010. During the six months ended June 30, 2010, the Company recognized gains totaling $569,000 on both the sale of mutual funds and the transfer of mutual funds into trading. From a tax perspective, since: (i) these events triggered the reversal of deferred tax assets previously recognized when the Company recorded OTTI charges in March 2009; and (ii) the deferred tax assets on the OTTI were established at a statutory rate approximating 45% (the rate that assumes that the assets will be held long-term and significantly in excess of the current consolidated 37% tax rate), their reversal created a higher effective tax rate of 39.5% during the six months ended June 30, 2010. During the three months ended June 30, 2009 the effective tax rate was reduced to 35% as a result of

$886,000 of recorded OTTI expense, as the tax provision applied to these OTTI items was made at the statutory 45% rate. Similarly, the effective tax rate was reduced to 32% during the six months ended June 30, 2009 as a result of $5.9 million of recorded OTTI charges.

14. NET MORTGAGE BANKING INCOME

Net mortgage banking income presented in the condensed consolidated statements of operations was comprised of the following items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Gain on the sale of loans originated for sale	$140	$634	$181	$635
Credit (Provision) to the liability for First Loss Position	-	21	-	(1,402)
Recovery of write down of mortgage servicing asset	-	-	-	60
Mortgage banking fees	163	201	332	395
Net mortgage banking income(loss)	$303	$856	$513	$(312)

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

General

The Holding Company is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-four full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank’s principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, one- to four-family residential, construction and land acquisition loans, consumer loans, MBS, obligations of the U.S. government and GSEs, and corporate debt and equity securities.

Executive Summary

The Holding Company’s primary business is the ownership of the Bank. The Company’s consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, as well as income associated with Bank Owned Life Insurance. Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, and occupancy and equipment, marketing and other operating expenses. The Company’s consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary strategy is generally to seek to increase its product and service utilization for each individual depositor, and to increase its household and deposit market shares in the communities that it serves. The Bank’s primary strategy additionally includes the origination of, and investment in, mortgage loans, with an emphasis on multifamily residential and mixed use real estate loans. In late 2008 and during the six months ended June 30, 2009, the Company restricted asset growth due to concerns over the health of the commercial real estate markets, and the desire to preserve capital levels to accommodate these concerns. During the three-month and six-month periods ended June 30, 2010, the Company utilized a measured growth strategy related to its asset volume.

The Company believes that multifamily residential and mixed use loans provide advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing, and typically offer higher yields than fixed-rate one- to four-family residential mortgage loans. In addition, origination and processing costs for the Bank’s multifamily residential and mixed use loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank’s market area has generally provided a stable flow of new and refinanced multifamily residential and mixed use loan originations. In order to address the credit risk associated with multifamily residential and mixed use lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistently high credit quality for its loans.

The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seeks to maintain the asset quality of its loans and other investments; and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

The years ended December 31, 2008 and 2009 were dominated by a global real estate and economic recession fueled by significant weakness in and/or failures of many of the world's largest financial institutions. Although the recessionary conditions began to subside during the six months ended June 30, 2010, overall credit conditions in the Company's local real estate marketplace remained challenged. As a result, the Bank recognized higher credit costs

on portfolio loans during the three-month and six-month periods ended June 30, 2010 than the corresponding period of 2009. However, historically high dislocations in credit markets caused origination spreads from the benchmark origination interest rate to remain historically high during the year ended December 31, 2009 and the three-month and six-month periods ended June 30, 2010. This increase, coupled with a reduction in benchmark short-term interest rates by the Federal Open Market Committee ("FOMC") (which significantly impact the pricing of the Bank's retail deposits), favorably impacted the Company's net interest spread and net interest margin during the three-month and six-month periods ended June 30, 2010 compared to their corresponding periods of 2009.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Reform Act”). The Reform Act is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. Certain aspects of the Reform Act will have an impact on the Company, as described in more detail below in Part II, Item IA, “Risk Factors.”

Recent Market Developments

Insurance of Deposit Accounts

On February 27, 2009, the Federal Deposit Insurance Corporation ("FDIC") adopted a final rule modifying the risk-based assessment system and set the initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points depending on an institution’s risk category, with adjustments resulting in increased assessment rates generally for institutions with a significant reliance on secured liabilities and brokered deposits.

On February 27, 2009, the FDIC also adopted an interim rule imposing a 20 basis point emergency special assessment on the industry on June 30, 2009, to be collected on September 30, 2009. The interim rule also permitted the FDIC to impose an emergency special assessment of up to 10 basis points after June 30, 2009, if necessary to maintain public confidence in federal deposit insurance.

On May 22, 2009, the FDIC adopted a final rule implementing a 0.05% special assessment of each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, but no more than 0.10% times the institution's assessment base for the second quarter of 2009, which was collected by the FDIC on September 30, 2009. Additional special assessments may be imposed by the FDIC for future periods.

The February 2009 increases in assessments resulted in total pre-tax assessment expense of $3.7 million during the year ended December 31, 2009. In addition, the Bank recognized a special assessment of $1.8 million during the quarter ended June 30, 2009, representing 0.05% of the Bank's total assets (net of Tier 1 capital) at June 30, 2009.

On September 29, 2009, the FDIC amended its restoration plan for the Deposit Insurance Fund ("DIF") of the FDIC. Under the amended plan, the FDIC increased assessment rates by a uniform three basis points effective January 1, 2011 and did not impose additional special assessments in 2009. In addition, on November 17, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay their quarterly deposit insurance assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 on December 30, 2009, together with their regular deposit insurance assessment for the third quarter of 2009. At June 30, 2010, this prepayment approximated $11.5 million.

On April 13, 2010, the Board of Directors of the FDIC approved a notice of Proposed Rulemaking that, as applicable to the Bank, would provide for new initial and total base assessment schedules effective January 1, 2011. For institutions in Risk Category I, such as the Bank, the initial base assessment rate would range from 10 to 14 basis points of deposits, and the total base assessment rate would range from 5 to 21 basis points of deposits. If adopted as proposed, the new rule would result in higher FDIC deposit insurance assessments, which would increase the Bank's non-interest expense. This increase is not expected to have a material effect upon the Company's consolidated

operating results.

Selected Financial Highlights and Other Data
(Dollars in Thousands Except Per Share Amounts)

	At or For the Three Months Ended June 30,				At or For the Six Months Ended June 30,			
	2010		2009		2010		2009	
Performance and Other Selected Ratios:								
Return on Average Assets	0.95	%	0.69	%	0.95	%	0.49	%
Return on Average Stockholders' Equity	12.80		9.84		12.70		6.97	
Stockholders' Equity to Total Assets	7.59		7.13		7.59		7.13	
Tangible Equity to Total Tangible Assets (1)	6.46		6.00		6.46		6.00	
Loans to Deposits at End of Period	142.05		141.55		142.05		141.55	
Loans to Earning Assets at End of Period	91.24		90.76		91.24		90.76	
Net Interest Spread	3.16		2.54		3.20		2.37	
Net Interest Margin	3.35		2.78		3.40		2.64	
Average Interest Earning Assets to Average Interest Bearing Liabilities	108.78		108.57		108.79		108.61	
Non-Interest Expense to Average Assets	1.50		1.53		1.53		1.44	
Efficiency Ratio	43.92		52.62		44.45		53.75	
Effective Tax Rate	37.62		34.57		39.47		32.26	
Dividend Payout Ratio	46.67		66.67		48.28		93.33	
Average Tangible Equity	$261,736		$233,376		$255,490		$233,416	
Per Share Data:								
Reported EPS (Diluted)	$0.30		$0.21		$0.58		$0.30	
Cash Dividends Paid Per Share	0.14		0.14		0.28		0.28	
Stated Book Value	9.11		8.24		9.11		8.24	
Tangible Book Value	7.65		6.84		7.65		6.84	
Asset Quality Summary:								
Net Charge-offs	$5,024		$528		$5,793		$2,404	
Non-performing Loans	18,691		12,878		18,691		12,878	
Non-performing Loans/Total Loans	0.54	%	0.40	%	0.54	%	0.40	%
Non-performing Assets	$19,634		$14,118		$19,634		$14,118	
Non-performing Assets/Total Assets	0.47	%	0.36	%	0.47	%	0.36	%
Allowance for Loan Loss/Total Loans	0.67		0.62		0.67		0.62	
Allowance for Loan Loss/Non-performing Loans	124.93		155.23		124.93		155.23	
Regulatory Capital Ratios (Bank Only):								
Tangible Capital	7.70	%	7.63	%	7.70	%	7.63	%
Leverage Capital	7.70		7.63		7.70		7.63	
Tier 1 Risk-based Capital	11.03		10.70		11.03		10.70	
Total Risk-based Capital	11.89		11.46		11.89		11.46	
Earnings to Fixed Charges Ratios (2)								
Including Interest on Deposits	1.73	x	1.40	x	1.75	x	1.26	x
Excluding Interest on Deposits	2.15		1.73		2.17		1.50	

(1) Tangible Equity is a non-GAAP measure. Please refer to Note 19 of the Company's financial statements contained within in its Annual Report on Form 10-K for the year ended December 31, 2009 for a reconciliation of GAAP Stockholders' Equity and Tangible Equity.
(2) Please refer to Exhibit 12.1 for further detail on the calculation of these ratios.

Critical Accounting Policies

Various elements of the Company’s accounting policies are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company’s policies with respect to the methodologies it uses to determine the allowance for loan losses, reserves for loan commitments, the liability for the First Loss Position, the valuation of MSR, asset impairments (including the valuation of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments and accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company’s consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and

subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material variations in the Company's consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

Allowance for Loan Losses. GAAP requires the Bank to maintain an appropriate allowance for loan losses. Management uses available information to estimate losses on loans and believes that the Bank maintains its allowance for loan losses at appropriate levels. Adjustments may be necessary, however, if future economic, market or other conditions differ from the current operating environment.

Although the Bank believes it utilizes the most reliable information available, the level of the allowance for loan losses remains an estimate subject to significant judgment. These evaluations are subjective because, although based upon objective data, it is management's interpretation of the data that determines the amount of the appropriate allowance. The Company, therefore, periodically reviews the actual performance and charge-offs of its portfolio and compares them to the previously determined allowance coverage percentages. In doing so, the Company evaluates the impact that the variables discussed below may have on the portfolio to determine whether or not changes should be made to the assumptions and analyses.

The Bank's loan loss reserve methodology consists of several components, including a review of the two elements of its loan portfolio: problem loans (i.e., criticized loans and impaired loans under ASC 310-10-35), and performing loans. The Bank applied the process of determining the allowance for loan losses consistently throughout the three-month and six-month periods ended June 30, 2010 and 2009.

Performing Loans

At June 30, 2010, the majority of the allowance for loan losses was allocated to performing loans, which represented the overwhelming majority of the Bank's loan portfolio. Performing loans are reviewed at least quarterly based upon the premise that there are losses reasonably expected to be incurred within the loan portfolio that have not been recognized as of the review date. The Bank thus calculates an allowance for loan losses related to its performing loans by deriving an expected loan loss percentage and applying it to its performing loans. In deriving the expected loan loss percentage, the Bank generally considers, among others, the following criteria: the Bank's historical loss experience; the age and payment history of the loans (commonly referred to as their "seasoned quality"); the type of loan (i.e., one- to four-family, multifamily residential, commercial real estate, cooperative apartment, construction and land acquisition or consumer); both the current condition and recent history of the overall local real estate market (in order to determine the accuracy of utilizing recent historical charge-off data to derive the expected loan loss percentages); the level of, and trend in, non-performing loans; the level and composition of new loan activity; and the existence of geographic loan concentrations (as the overwhelming majority of the Bank's loans are secured by real estate located in the NYC metropolitan area), or specific industry conditions within the portfolio segments. Since these criteria affect the expected loan loss percentages that are applied to performing loans, changes in any of them may affect the amounts of the allowance and the provision for loan losses. Between June 30, 2009 and June 30, 2010, the Bank increased the impact of the current condition of the overall local real estate marketplace and reduced the impact of the level and composition of new loan activity (the competitive lending landscape) in deriving the expected loss percentages applied to performing loans. Otherwise, the remaining factors utilized in deriving the expected loss percentages applied to both problem and performing loans remained unchanged from both June 30, 2009 and December 31, 2009.

Problem Loans

(i) Criticized Loans. OTS regulations and Bank policy require that loans possessing certain weaknesses be classified as Substandard, Doubtful or Loss assets. Assets that do not expose the Bank to risk sufficient to justify classification in one of these categories, however, which possess potential weaknesses that deserve management's attention, are designated Special Mention. Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Bank's Loan Loss Reserve Committee to determine the level of possible loss, if any, that should be provided for within the Bank's allowance for loan losses.

The Bank's policy is to charge-off immediately all balances classified as Loss and record a reduction of the allowance for loan losses for the full amount of the loss. The Bank applied this process consistently throughout the three-month and six-month periods ended June 30, 2010 and 2009.

(ii) Impaired Loans. Under the guidance established by ASC 310-10-35, loans determined to be impaired (i.e., loans where it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan; generally, non-accrual one- to four-family loans in excess of $625,500 and non-accrual and troubled-debt restructured multifamily residential and commercial real estate loans) are evaluated at least quarterly in order to establish impairment. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimated fair value of the collateral. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. (See "Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations – Asset Quality – Impaired Loans" for a discussion of impaired loans).

Non-accrual one- to four-family loans of $625,500 or less are not required to be evaluated individually for impairment. However, the Company classifies these loans as Substandard, Doubtful or Loss, and typically reviews and calculates loan loss reserves for these loans in substantially the same manner as the loans evaluated individually for impairment.

Reserve for Loan Commitments. The Bank maintains a separate reserve within other liabilities associated with commitments to fund future loans that have been accepted by the borrower. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve amount are obtained via a transfer of reserves from the Bank's allowance for loan losses, with any resulting shortfall in the Bank's allowance for loan losses being satisfied through the quarterly provision for loan losses. Any decreases in this reserve amount are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

Liability for the First Loss Position on Multifamily Loans Sold to FNMA. A liability is also recorded related to the First Loss Position on multifamily residential real estate loans sold with recourse under an agreement with FNMA. This liability reserve, which is included in other liabilities in the Company's consolidated statements of financial condition, is determined in a manner similar to the Company's allowance for loan losses related to loans held in portfolio.

Valuation of MSR. The proceeds received on mortgage loans sold with servicing rights retained by the Bank are allocated between the loans and the servicing rights based on their estimated fair values at the time of the loan sale. In accordance with GAAP, MSR are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. In accordance with ASC 860-50-35, all separately recognized MSR are required to be initially measured at fair value, if practicable. The estimated fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers.

The fair value of MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the estimated fair value of MSR. In the event that actual loan prepayments exceed the assumed amount (generally due to increased loan refinancing), the fair value of MSR would likely decline. In the event that actual loan prepayments fall below the assumed amount (generally due to a decline in loan refinancing), the fair value of MSR would likely increase. Any measurement of the value of MSR is limited by the existing conditions and assumptions utilized at a particular point in time, and would not necessarily be appropriate if applied at a different point in time.

Assumptions utilized in measuring the fair value of MSR for the purpose of evaluating impairment additionally include the stratification based on predominant risk characteristics of the underlying loans. Increases in the risk characteristics of the underlying loans from the assumptions would result in a decline in the fair value of the MSR. A valuation allowance is established in the event the recorded value of an individual stratum exceeds its fair value for the full amount of the difference.

Asset Impairment Adjustments. Certain assets are carried in the Company's consolidated statements of financial condition at fair value or at the lower of cost or fair value:

(i) Goodwill Impairment Analysis. As of June 30, 2010, the Company had goodwill totaling $55.6 million, which is accounted for in accordance with ASC 805-10. ASC 805-10 requires performance of an annual impairment test at the reporting unit level. Management annually performs analyses to test for impairment of goodwill. In the event an

impairment of goodwill is determined to exist, it is recognized as a charge to earnings.

The Company identified a single reporting unit for purposes of its goodwill impairment testing, and thus performs its impairment test on a consolidated basis. The impairment test has two potential stages. In the initial stage, the Holding Company's market capitalization (reporting unit fair value) is compared to its outstanding equity (reporting unit carrying value). The Company utilizes closing price data for the Holding Company's common stock as reported on the Nasdaq National Market in order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2009 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events or circumstances have changed subsequent to December 31, 2009 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require the immediate performance of an impairment test in accordance with ASC 805-10.

(ii) Valuation of Financial Instruments and Analysis of OTTI Related to Investment Securities and MBS. Debt securities are classified as held-to-maturity, and carried at amortized cost, only if the Company has a positive intent and ability to hold them to maturity.

At June 30, 2010, the Company owned eight pooled trust preferred securities classified as held-to-maturity. Late in 2008, the market for these securities became highly illiquid, and continued to be deemed as such as of June 30, 2010. As a result, at both June 30, 2010 and December 31, 2009, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing as described in Note 11 to the condensed consolidated financial statements). Under the blended valuation approach, broker quotations, which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4, were given a minor 10% weighting. A cash flow valuation for the eight securities performed utilizing the Internal Cash Flow Valuation was given a 45% weighting. In addition, for five of the eight securities, three independent cash flow model valuations were averaged and given a 45% weighting. For the remaining three securities, two independent cash flow valuations were available and were similarly given a 45% weighting. See Note 11 to the condensed consolidated financial statements for a further discussion of this valuation.

At June 30, 2010, the Company had an investment in nine mutual funds totaling $1.3 million that were classified as trading. All changes in valuation of these securities are recognized in the Company's results of operations. The Company owned no securities classified as trading during the three-month or six-month periods ended June 30, 2009. Debt securities that are not classified as either held-to-maturity or trading are classified as available-for-sale. Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value. All of the Company's available-for-sale securities at June 30, 2010 had readily determinable fair values, which were based on published or securities dealers' market values.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in market value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a corresponding decline in either net income or accumulated other comprehensive income or loss in accordance with ASC 320-10-65. See Note 10 to the condensed consolidated financial statements for a reconciliation of OTTI on securities during the three-month and six-month periods ended both June 30, 2010 and 2009.

Recognition of Deferred Tax Assets. Management reviews all deferred tax assets periodically. Upon such review, in the event that there is a greater than 50% likelihood that the deferred tax asset will not be fully realized, a valuation allowance is recognized against the deferred tax asset in the amount for which realization is determined to be more unlikely than likely to occur.

Unrecognized Tax Positions. The Company performs two levels of evaluation for all uncertain tax positions. Initially, a determination is made as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. In making its evaluation, management reviews applicable tax rulings and other advice provided by reputable tax professionals.

Loan Income Recognition. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank reverses all previously accrued interest. Payments on non-accrual loans are generally applied initially to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Loans are returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least 6 months.

Accounting for Defined Benefit Plans. Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of a benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's Asset-Liability Committee ("ALCO") is responsible for general oversight and strategic implementation of the policy, and management of the appropriate departments are designated responsibility for implementing any strategies established by ALCO. On a

daily basis, senior management receives a current cash position report and one-week forecast to ensure that all short-term obligations are timely satisfied and that adequate liquidity exists to fund future activities. On a monthly basis, reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to both senior management and the Board of Directors. In addition, on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A forecast of cash flow data for the upcoming 12 months is presented to the Board of Directors on an annual basis.

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security maturities, advances from the FHLBNY, and securities sold under agreement to repurchase ("REPOS") entered into with various financial institutions, including the FHLBNY. The Bank may also sell selected multifamily residential, mixed use and one- to four-family residential real estate loans to private sector secondary market purchasers and has in the past sold such loans to FNMA. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity markets. To the extent that the Bank is responsive to general market increases or declines in interest rates, its deposit flows should not be materially impacted. However, favorable performance of the equity or bond markets could adversely impact the Bank’s deposit flows.

Retail branch and internet banking deposits increased $223.0 million during the six months ended June 30, 2010, compared to an increase of $33.1 million during the six months ended June 30, 2009. During the six months ended June 30, 2010, CDs increased $132.4 million, fueled by a promotional 15-month individual retirement account CD promotion, while core deposits (i.e., non-CDs) increased $90.6 million, led by $82.8 million of inflows of money markets that were competitively priced. During the six months ended June 30, 2009, core deposits increased $133.4 million, and were partially offset by a decline of $100.3 million in CDs. During this period, deposit pricing pressure diminished in the Bank's marketplace and the Bank experienced an unusually large inflow of money market and checking deposits from local depositors.

During the six months ended June 30, 2010, principal repayments totaled $221.5 million on real estate loans and $40.6 million on MBS. During the six months ended June 30, 2009, principal repayments totaled $154.4 million on real estate loans and $42.4 million on MBS. The increase in principal repayments on real estate loans reflected additional loan refinancing activity as portfolio loans moved closer to their contractual repricing date. The reduction in principal repayments on MBS reflected a decline of $86.2 million in their average balance from the six months ended June 30, 2009 to the six months ended June 30, 2010. The Company does not presently believe that its future levels of principal repayments will be materially impacted by problems currently experienced in the residential mortgage market. (See "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Quality" for a further discussion of the Bank's asset quality).

During the six months ended June 30, 2010, the Company converted $35.0 million of REPO borrowings into an FHLBNY advance with the same remaining term to maturity, paying a small conversion premium in the process. The conversion was made in order to change the underlying required collateral from investment securities and MBS (required for REPO borrowings) to real estate loans (permitted for FHLBNY advances). Excluding the conversion of the $35.0 million of REPO borrowings, the Company reduced FHLBNY advances by $24.2 million during the six months ended June 30, 2010 due to the significant inflow of deposits which was sufficient to fund operations during the period. During the six months ended June 30, 2009, the Company reduced its level of FHLBNY advances by $60.0 million, as it elected to utilize liquidity provided by deposit inflows in order to reduce its overall borrowing

level during the period.

In the event that the Bank should require funds beyond its ability to generate them internally, an additional source of funds is available through use of its borrowing line at the FHLBNY. At June 30, 2010, the Bank had an additional potential borrowing capacity of $418.4 million through the FHLBNY, subject to customary minimum common stock ownership requirements imposed by the FHLBNY (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary regulator, The Office of Thrift Supervision (the "OTS"), which, as a general matter, are based on the amount and composition of an institution's assets. At June 30, 2010, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury and the payment of quarterly cash dividends to shareholders of the Holding Company's common stock. During the six months ended June 30, 2010 and 2009, real estate loan originations totaled $259.9 million and

$195.1 million, respectively. Purchases of investment securities (excluding trading securities, short-term investments and federal funds sold) were $31.2 million during the six months ended June 30, 2010, comprised solely of medium-term agency notes. There were no purchases of investment securities (excluding short-term investments and federal funds sold) and MBS during the six months ended June 30, 2009. The increase in real estate loan originations and the aggregate level of investment security purchases resulted from management's election to curb asset growth during the year ended December 31, 2009, and thus: (i) focus lending activities primarily upon retaining existing loans that were nearing contractual repricing; and (ii) retain an unusually high level of liquidity in order to maintain balance sheet flexibility during the remainder of 2009, especially in the event deposit balances declined as a result of their historically low offering rates. The higher levels of real estate loan originations and security purchases during the six months ended June 30, 2010 were more consistent with a measured growth strategy versus the non-growth strategy implemented in early 2009.

The Holding Company did not repurchase any shares of its common stock during the six months ended June 30, 2010. As of June 30, 2010, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the $12.63 per share closing price of its common stock as of June 30, 2010, the Holding Company would utilize $14.2 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

The Company paid $9.3 million and $9.2 million in cash dividends on its common stock during the six months June 30, 2010 and 2009, respectively. In addition, on May 1, 2010, the Company repaid a $25.0 million subordinated note borrowing at its contractual maturity.

Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment and for minimum monthly payments under its data systems contract. The Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances and/or REPOS. The Holding Company also has $70.7 million of trust preferred borrowings from third parties due to mature in April 2034, which are callable at any time after April 2009. The Holding Company does not currently intend to call this debt. On May 1, 2010, the Holding Company repaid an outstanding $25.0 million non-callable subordinated note that matured. None of the outstanding contractual obligations have changed materially since December 31, 2009. The Company additionally had a reserve recorded related to unrecognized income tax benefits totaling $1.4 million at June 30, 2010. The facts and circumstances surrounding this obligation have not changed materially since December 31, 2009. Please refer to Note 14 to the Company's consolidated audited financial statements for the year ended December 31, 2009 for a further discussion of the unrecognized income tax benefits.

Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank is required to retain the First Loss Position related to all loans sold under this program, which will remain in effect until either the entire portfolio of loans sold to FNMA is satisfied or the Bank indemnifies FNMA for losses (as defined in the agreement) in the aggregate amount of the First Loss Position.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Since many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of June 30, 2010:

	Total

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	
			(Dollars in thousands)		
Credit Commitments:					
Available lines of credit	$37,796	$-	$-	$-	$37,796
Other loan commitments (1)	42,279	-	-	-	42,279
Other Commitments:					
First Loss Position on loans sold to FNMA (1)	18,697	-	-	-	18,697
Total Commitments	$98,772	$-	$-	$-	$98,772

(1) In accordance with the requirements of both ASC 450-20-25 and ASC 460-10-25, as of June 30, 2010, reserves on loan commitments and the liability for the First Loss Position on loans sold to FNMA were $323,000 and $3.0 million, respectively, and were recorded in other liabilities in the Company's condensed consolidated statements of financial condition.

Asset Quality

General

At both June 30, 2010 and December 31, 2009, the Company had neither whole loans nor loans underlying MBS that would be considered subprime loans, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 10 to the condensed consolidated financial statements for a discussion of impaired investment securities and MBS.

Monitoring and Collection of Delinquent Loans

Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential or commercial real estate loans, or fifteen days late in connection with one- to four-family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed and phone calls are placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower if that is in the best interest of the Bank.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank reverses all previously accrued interest. Payments on non-accrual loans are generally applied initially to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Loans are returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least 6 months.

Generally, the Bank initiates foreclosure proceedings when a loan enters non-accrual status. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is generally sold. It is the Bank's general policy to dispose of non-accrual loans and OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances.

Non-accrual Loans

Within the Bank's portfolio, non-accrual loans totaled $18.7 million and $11.3 million at June 30, 2010 and December 31, 2009, respectively, representing 0.54% and 0.33% of total loans at June 30, 2010 and December 31, 2009. During the six months ended June 30, 2010, twelve loans totaling $9.6 million were added to non-accrual status. Partially offsetting this increase were three loans totaling $1.9 million that were removed from non-accrual status as they were satisfied during the period, and one non-accrual loan totaling $320,000 that was transferred to OREO. The difficulties experienced in both the national real estate and financial services marketplaces combined to adversely impact the metropolitan NYC area multifamily and commercial real estate markets during the three-month and six-month periods ended June 30, 2010.

Impaired Loans

A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed impaired, even during a period of delayed payment by the borrower, if the Bank ultimately expects to collect all amounts due, including interest accrued at the contractual rate. Generally, the Bank considers non-accrual and troubled-debt restructured multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans exceeding $625,500, to be impaired. Non-accrual one-to four-family loans of $625,500 or less, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment. Impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimated fair value of the collateral. A reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. The recorded investment in loans deemed impaired was approximately $29.5 million, consisting of thirty loans, at June 30, 2010, compared to $15.0 million, consisting of nineteen loans, at December 31, 2009. During the six months ended June 30, 2010, fourteen loans totaling $16.8 million were added to impaired status, while three loans totaling $2.1 million were removed from impaired status. Of the $2.1 million removed from impaired status, $1.8 million represented a satisfaction that occurred during the period, and the remainder represented a transfer to OREO. During the six months ended June 30, 2009, twelve loans totaling $9.5 million were added to impaired status, while six loans totaling $3.2 million were removed from impaired status. Of the $3.2 million removed from impaired status, $1.2 million represented a satisfaction that occurred during the period, and the remainder represented loans that were no longer deemed to meet the criteria for impairment due primarily to their continued performance in accordance with their contractual terms. At June 30, 2010, total impaired loans exceeded total non-accrual loans by $10.8 million due to one troubled-debt restructured loan with a balance of $1.0 million that was deemed impaired at June 30, 2010, and six

additional loans totaling $10.5 million that were near 90 days delinquent at June 30, 2010 and were deemed impaired despite being on accrual status. The impaired loans that remained on accrual status were partially offset by four non-accrual loans totaling $659,000 which, while on non-accrual status, were not deemed impaired since they were either one- to four-family loans with individual outstanding balances of $625,500 or less or consumer loans. The average balance of impaired loans approximated their period-end balance during the six months ended both June 30, 2010 and 2009. The increase in the average balance of impaired loans during the six months ended June 30, 2010 compared to the six months ended June 30, 2009 reflected the increase of $14.5 million in impaired loans from June 30, 2009 to June 30, 2010.

Troubled-Debt Restructurings ("TDRs")

Under GAAP, the Bank is required to account for certain loan modifications or restructurings as TDRs. In general, the modification or restructuring of a loan constitutes a TDR if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Current OTS regulations require that TDRs remain classified as such until the loan is either repaid or returns to its original terms. At June 30, 2010, the Bank had two loan totaling $2.8 million whose terms were modified in a manner that met the criteria for a TDR. However, only one of these loans, with an outstanding principal balance of $1.0 million, was classified as a TDR at June 30, 2010. This previously non-accrual loan was restructured in December 2008, has fully complied with the provisions of the restructuring since inception, and was therefore reclassified from a non-accrual loan to an accrual status TDR in June 2009. The remaining modified loan totaling $1.8 million was a non-accrual loan at June 30, 2010. This loan, which was modified in late 2009, would meet the criteria for a TDR classification should it fulfill the Bank's criteria for returning to accrual status, however, during the three months ended June 30, 2010, the loan defaulted on the terms of its restructuring agreement. The Bank had one loan with an outstanding principal balance of $1.0 million classified as a TDR at December 31, 2009.

OREO

Property acquired by the Bank as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO and recorded at the lower of the recorded investment in the related loan or the fair value of the property on the date of acquisition, with any resulting write down charged to the allowance for loan losses and any disposition expenses charged to expense. The Bank obtains a current appraisal on OREO as soon as practicable after it takes possession and generally reassesses the value at least annually thereafter. The Bank owned three OREO properties with an aggregate recorded balance of $350,000 at June 30, 2010. At December 31, 2009, the Bank owned five OREO properties with a recorded balance of $755,000. During the six months ended June 30, 2010, the Company added one OREO property with a balance of $320,000 and disposed of three properties with an aggregate balance of $368,000. The Company also reduced the balance of two OREO properties by a total of $357,000 to reflect their likely disposal value.

The following table sets forth information regarding non-accrual loans, OREO, and non-performing investment securities at the dates indicated:

	At June 30, 2010	At December 31, 2009
	(Dollars in Thousands)	
Non-accrual loans		
One- to four-family	$634	$371
Multifamily residential	12,239	5,885
Commercial real estate	4,277	3,070

Mixed Use	1,500		1,935	
Cooperative apartment	25		26	
Other	16		7	
Total non-accrual loans	$18,691		$11,294	
OREO	350		688	
Non-performing investment securities	593		755	
Total non-performing assets	$19,634		$12,737	
Ratios:				
Total non-accrual loans to total loans	0.54	%	0.33	%
Total non-performing assets to total assets	0.47		0.32	

Other Potential Problem Loans

(i) Loans Delinquent 30 to 89 Days

The Bank had 20 real estate loans, totaling $11.1 million, that were delinquent between 30 and 89 days at June 30, 2010, a net reduction of $18.4 million compared to 38 such loans totaling $29.5 million at December 31, 2009. Included within the 30 to 89 day delinquent loans as of June 30, 2010 were 4 loans totaling $3.4 million that are included in the previously discussed $29.5 million of loans deemed impaired at June 30, 2010. Given the challenges facing the NYC area real estate market at June 30, 2010, it is anticipated that 30-89 day delinquencies will remain above $10 million for the foreseeable future. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of credit quality trends than non-accrual loans.

(ii) Other

At June 30, 2010, the Bank had nineteen loans totaling $19.8 million that were either: (1) mutually modified with the borrowers in a manner that did not meet the criteria for TDRs, and have been performing in accordance with the modified terms; or (2) have experienced payment difficulties within the previous twelve months but were either current or less than 30 days delinquent as of June 30, 2010.

Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA with an outstanding principal balance of $404.5 million at June 30, 2010. This pool is subject to recourse in the form of the First Loss Position, which totaled $18.7 million at June 30, 2010. Within this pool of loans, one loan totaling $618,000 was 90 days or more delinquent at June 30, 2010. At June 30, 2010, the Bank had further identified two additional loans over 30 days past due totaling $2.9 million within the FNMA pool. The Bank manages the collection of these loans in the same manner as it does for portfolio loans. Under the terms of the servicing agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans, and to indemnify FNMA for any further losses (as defined in the sale agreement) until the earlier of the following events: (i) the Bank re-acquires the loan from FNMA; or (ii) the loans have either been fully satisfied or enter OREO status. However, the aggregate losses incurred by the Bank on this pool of serviced loans cannot exceed the total First Loss Position. The Bank has previously repurchased, and may opt to continue to repurchase, loans sold to FNMA with recourse exposure that become 90 or more days delinquent. Such repurchased loans are listed as non-performing portfolio loans and are typically purchased from FNMA in order to expedite resolution of the loan, via restructure, reinstatement, note sale or enforcement of legal remedies.

Allowance for Loan Losses and Reserve Liability on Loan Origination Commitments

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