Kearny Financial Corp.
Form 10-K
September 13, 2012

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________ to __________________

Commission File Number: 0-51093

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

United States (State or Other Jurisdiction of Incorporation or Organization)	22-3803741 (I.R.S. Employer Identification No.)
120 Passaic Avenue, Fairfield, New Jersey (Address of Principal Executive Offices)	07004 (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] YES [ ] NO

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was $130.2 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of September 7, 2012 there were outstanding 66,898,140 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the Registrant's 2012 Annual Meeting of Stockholders. (Part III)

KEARNY FINANCIAL CORP.
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended June 30, 2012

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SIGNATURES

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Forward-Looking Statements

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

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). In addition to the factors described under Item 1A. Risk Factors, the following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations,
- the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations,
- the impact of changes in financial services laws and regulations (including laws concerning taxation, banking, securities and insurance),
- changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board ("FASB") or the Public Company Accounting Oversight Board,
- technological changes,
- competition among financial services providers and,
- the success of the Company at managing the risks involved in the foregoing and managing its business.

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

PART I

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the “Bank”), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, representing 30% of its outstanding common stock upon completion of the offering. The remaining 70% of the outstanding common stock, totaling 50,916,250 shares, were retained by Kearny MHC (the “MHC”). The MHC is a federally-chartered mutual holding company and so long as the MHC is in existence, it will at all time own a majority of the outstanding common stock of the Company. The stock repurchase programs conducted by the Company since the offering have reduced the total number of shares outstanding. The 50,916,250 shares held by the MHC represented 76.1% of the 66,936,040 total shares outstanding as of the Company’s June 30, 2012 fiscal year end. The MHC and the Company are now regulated as savings and loan holding companies by the Board of Governors of the Federal Reserve System (“FRB”), as successor to the Office of Thrift Supervision (“OTS”) under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

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

The Bank was originally founded in 1884 as a New Jersey mutual building and loan association. It obtained federal insurance of accounts in 1939 and received a federal charter in 1941. The Bank’s deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation (“FDIC”) and the Bank is regulated by the Office of the Comptroller of the Currency (“OCC”), as successor to the OTS under the Dodd-Frank Act, and the FDIC.

The Company’s primary business is the ownership and operation of the Bank. The Bank is principally engaged in the business of attracting deposits from the general public in New Jersey and using these deposits, together with other funds, to originate or purchase loans for its portfolio and invest in securities. Loans originated or purchased by the Bank generally include loans collateralized by residential and commercial real estate augmented by secured and unsecured loans to businesses and consumers. The investment securities purchased by the Bank generally include U.S. agency mortgage-backed securities, U.S. government and agency debentures and bank-qualified municipal obligations. The Bank maintains a small balance of single issuer trust preferred securities and non-agency mortgage-backed securities which were acquired through the Company’s purchase of other institutions and does not actively purchase such securities. At June 30, 2012, net loans receivable comprised 43.4% of our total assets while investment securities, including mortgage-backed and non-mortgage-backed securities, comprised 43.5% of our total assets. By comparison, at June 30, 2011, net loans receivable comprised 43.3% of our total assets while securities comprised 41.8% of our total assets.

The level of loan originations and purchases during fiscal 2012 continued to reflect the challenges of declining real estate values and high levels of unemployment that have characterized the regional and national economy since the financial crisis of 2008-2009. Notwithstanding these near-term challenges, our strategic business plan continues to call for increasing the balance of our loan portfolio relative to the size of our securities portfolio over the next several years.

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We operate from an administrative headquarters in Fairfield, New Jersey and had 41 branch offices as of June 30, 2012. We also operate an Internet website at www.kearnyfederalsavings.com through which copies of our periodic reports are available free of charge as soon as reasonably practicable after they are filed with the Securities and Exchange Commission.

Market Area. At June 30, 2012, our primary market area consists of the New Jersey counties in which we currently operate branches: Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic and Union Counties. Our lending is concentrated in these nine counties and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

Our primary market area is largely urban and suburban with a broad economic base as is typical within the New York metropolitan area. Service jobs represent the largest employment sector followed by wholesale/retail trade. Our business of attracting deposits and making loans is generally conducted within our primary market area. A downturn in the local economy could reduce the amount of funds available for deposit and the ability of borrowers to repay their loans which would adversely affect our profitability.

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

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans. We also face competition for attracting funds from providers of alternative investment products such as equity and fixed income investments such as corporate, agency and government securities as well as the mutual funds that invest in these instruments.

There are large retail banking competitors operating throughout our primary market area, including Bank of America, Citibank, Hudson City Savings Bank, JP Morgan Chase Bank, PNC Bank, TD Bank, and Wells Fargo Bank and we face strong competition from other community-based financial institutions. Based on data compiled by the FDIC as of June 30, 2011, the latest date for which such data is available, Kearny Federal Savings Bank was ranked 15th of 112 depository institutions operating in the nine counties in which the Bank had branches as of that date with 1.14% of total FDIC-insured deposits.

Acquisition of Central Jersey Bancorp. On November 30, 2010, the Company completed its acquisition of Central Jersey Bancorp ("Central Jersey") and its wholly owned subsidiary, Central Jersey Bank, National Association ("Central Jersey Bank"). The transaction qualified as a tax-free reorganization for federal income tax purposes. The final consideration paid in the transaction totaled $82.1 million which included $70.5 million paid to stockholders of Central Jersey at a price of $7.50 per outstanding share and $11.6 million paid to the U.S. Department of Treasury ("U.S. Treasury") for the redemption of the 11,300 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and related warrant originally issued by Central Jersey to the U.S. Treasury under the TARP Capital Purchase Plan.

Upon completion of the transaction, Central Jersey merged with the Company while Central Jersey Bank merged with and into the Bank. Central Jersey Bank continues to operate as a division of the Bank ("CJB Division") through its 14 branch offices in Monmouth and Ocean Counties, New Jersey.

Lending Activities

General. We have traditionally focused on the origination of one-to-four family first mortgage loans, which comprise a significant majority of our total loan portfolio. Our next largest category of loans comprises commercial mortgages, including loans secured by multi-family, mixed-use and nonresidential properties. Our commercial loan offerings also include secured and unsecured business loans, most of which are secured by real estate. Commercial loan offerings include programs offered through the Small Business Administration (“SBA”) in which the Bank participates as a Preferred Lender. Our consumer loan offerings primarily include home equity loans and home equity lines of credit as well as account loans, overdraft lines of credit, vehicle loans and personal loans. We also offer construction loans to builders/developers as well as individual homeowners. Substantially all of our borrowers are residents of our primary market area and would be expected to be similarly affected by economic and other conditions in that area. Since May 2007, we have been purchasing out-of-state one-to-four family first mortgage loans to supplement our in-house originations, as discussed on Page 13. With the acquisition of Central Jersey during the year ended June 30, 2011, we substantially increased our commercial mortgage and commercial business loan portfolios.

	At June 30,								
	2012		2011		2010		2009		2008
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
	(Dollars in Thousands)								
Real estate mortgage:									
One-to-four family	$562,846	43.77 %	$610,901	48.12 %	$663,850	65.52 %	$689,317	65.97 %	$687,679
Commercial	484,934	37.71	383,690	30.23	203,013	20.04	197,379	18.89	178,588
Commercial business	88,414	6.88	105,001	8.28	14,352	1.42	14,812	1.42	8,735
Consumer:									
Home equity loans	95,832	7.45	111,478	8.78	101,659	10.03	113,387	10.85	123,978
Home equity lines of credit	29,530	2.30	32,925	2.59	11,320	1.12	12,116	1.16	11,478
Passbook or certificate	3,638	0.28	2,753	0.22	2,703	0.27	2,922	0.28	2,662
Other	404	0.03	1,026	0.08	1,545	0.15	1,585	0.15	1,332
Construction	20,292	1.58	21,598	1.70	14,707	1.45	13,367	1.28	12,062
Total loans	1,285,890	100.00 %	1,269,372	100.00 %	1,013,149	100.00 %	1,044,885	100.00 %	1,026,514
Less:									
Allowance for loan losses	10,117		11,767		8,561		6,434		6,104
Unamortized yield adjustments including net premiums on purchased loans and net deferred	1,654		1,021		(564)		(962)		(1,276)

loans costs and fees	11,771	12,788	7,997	5,472	4,828
Total loans, net	$1,274,119	$1,256,584	$1,005,152	$1,039,413	$1,021,686

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Loan Maturity Schedule. The following table sets forth the maturities of our loan portfolio at June 30, 2012. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Real estate mortgage: One-to-four family	Real estate mortgage: Commercial	Commercial business	Home equity loans	Home equity lines of credit	Passbook or certificate	Other	Construction	Total
				(In Thousands)					
Amounts Due:									
Within 1 Year	$ 314	$ 1,923	$ 27,413	$ 1,895	$ 180	$ 2,063	$ 177	$ 18,632	$ 52,597
After 1 year:									
1 to 3 years	2,294	10,939	8,361	2.497	413	115	88	1,660	26,367
3 to 5 years	5,211	4,429	7,098	7,159	674	43	32	—	24,646
5 to 10 years	80,407	38,185	9,231	26,496	6,925	—	35	—	161,279
10 to 15 years	151,881	105,894	8,286	30,726	7,112	—	—	—	303,899
Over 15 years	322,739	323,564	28,025	27,059	14,226	1,417	72	—	717,102
Total due after one year	562,532	483,011	61,001	93,937	29,350	1,575	227	1,660	1,233,293
Total amount due	$ 562,846	$ 484,934	$ 88,414	$ 95,832	$ 29,530	$ 3,638	$ 404	$ 20,292	$ 1,285,890

The following table shows the dollar amount of loans as of June 30, 2012 due after June 30, 2013 according to rate type and loan category.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In Thousands)	
Real estate mortgage:			
One-to-four family	$ 530,235	$ 32,297	$ 562,532
Multi-family and commercial	302,700	180,311	483,011
Commercial business	37,814	23,187	61,001
Consumer:			
Home equity loans	93,937	—	93,937
Home equity lines of credit	1,604	27,746	29,350
Passbook or certificate	—	1,575	1,575
Other	153	74	227
Construction	700	960	1,660
Total	$ 967,143	$ 266,150	$ 1,233,293

One-to-Four Family Mortgage Loans. Our primary lending activity has traditionally consisted of the origination of one-to-four family first mortgage loans, of which approximately $524.5 million or 93.2% are secured by properties located within New Jersey as of June 30, 2012 with the remaining $38.4 million or 6.8% secured by properties in other states. By comparison, at June 30, 2011 approximately $542.5 million or 88.8% of loans were secured by New Jersey properties. During the year ended June 30, 2012, the Bank originated $66.5 million of one-to-four family first mortgage loans within New Jersey compared to $76.7 million in the year ended June 30, 2011. Loan origination volume during fiscal 2012 continued to reflect the challenges of declining real estate values and high levels of unemployment that have characterized the regional and national economy since the financial crisis of 2008-2009. Management's decision to maintain its conservative underwriting standards coupled with a disciplined pricing policy continued into fiscal 2012 which may have caused some potential borrowers to seek financing with more aggressive lenders. To supplement originations, we also purchased one-to-four family first mortgages totaling $22.2 million during the year ended June 30, 2012, compared to $4.4 million during the year ended June 30, 2011. In total, one-to-four family mortgage loan repayments outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

We will originate a one-to-four family mortgage loan on an owner-occupied property with a principal amount of up to 95% of the lesser of the appraised value or the purchase price of the property, with private mortgage insurance required if the loan-to-value ratio exceeds 80%. Our loan-to-value limit on a non-owner-occupied property is 75%. Loans in excess of $1.0 million are handled on a case-by-case basis and are subject to lower loan-to-value limits, generally no more than 50%.

Our fixed-rate and adjustable-rate residential mortgage loans on owner-occupied properties have terms of ten to 30 years. Residential mortgage loans on non-owner-occupied properties have terms of up to 15 years for fixed-rate loans and terms of up to 20 years for adjustable-rate loans. We also offer ten-year balloon mortgages with a thirty-year amortization schedule on owner-occupied properties and a twenty-year amortization schedule on non-owner-occupied properties.

Our adjustable-rate loan products provide for an interest rate that is tied to the one-year Constant Maturity U.S. Treasury index and have terms of up to 30 years with initial fixed-rate periods of one, three, five, seven, or ten years according to the terms of the loan and annual rate adjustment thereafter. We also offer an adjustable-rate loan with a term of up to 30 years with a rate that adjusts every five years to the five-year Constant Maturity U.S. Treasury index. There is a 200 basis point limit on the rate adjustment in any adjustment period and the rate adjustment limit over the life of the loan is 600 basis points.

We offer a first-time homebuyer program for persons who have not previously owned real estate and are purchasing a one-to-four family property in Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic and Union Counties, New Jersey for use as a primary residence. This program is also available outside these areas, but only to persons who are existing deposit or loan customers of Kearny Federal Savings Bank and/or members of their immediate families. The financial incentives offered under this program are a one-eighth of one percentage point rate reduction on all first mortgage loan types and the refund of the application fee at closing.

The fixed-rate residential mortgage loans that we originate generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation (“Freddie Mac”). However, as our business plan continues to call for increasing loans on both a dollar and percentage of assets basis, we generally do not sell such loans in the secondary market and do not currently expect to do so in any large capacity in the near future.

Substantially all of our residential mortgages include “due on sale” clauses, which give us the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party. Property appraisals on real estate securing our one-to-four family first mortgage loans are made by state certified or licensed independent appraisers approved by the Bank’s Board of Directors. Appraisals are performed in accordance with applicable regulations and policies. We require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability and fire insurance and, if applicable, flood insurance, are also required.

Multi-Family and Nonresidential Real Estate Mortgage Loans. We also originate commercial mortgage loans on multi-family and nonresidential properties, including loans on apartment buildings, retail/service properties and land as well as other income-producing properties, such as mixed-use properties combining residential and commercial space. The factors noted above that impacted residential loan origination volume during fiscal 2012 also adversely impacted the origination volume of commercial mortgages. However, these challenges were more than offset by the Bank’s growing strategic emphasis in commercial lending which resulted in the origination of approximately $95.5 million of multi-family and commercial real estate mortgages during the year ended June 30, 2012, compared to $40.3 million during the year ended June 30, 2011. The Company’s business plan continues to call for growing strategic emphasis on the origination of commercial mortgages and increasing that portfolio on both a dollar and percentage of assets basis. Toward that end, we expanded our commercial loan acquisition strategies during fiscal 2012 to include purchases of commercial loan participations which totaled approximately $57.8 million during the year ended June 30, 2012. In total, commercial mortgage loan acquisition volume outpaced loan repayments during fiscal 2012 resulting in the reported net increase in the outstanding balance of this segment of the loan portfolio.

We generally require no less than a 25% down payment or equity position for mortgage loans on multi-family and nonresidential properties. For such loans, we generally require personal guarantees. Currently, these loans are made with a maturity of up to 25 years. We also offer a five-year balloon loan with a twenty five-year amortization schedule. Our commercial mortgage loans are generally secured by properties located in New Jersey.

Commercial mortgage loans are generally considered to entail a greater level of risk than that which arises from one-to-four family, owner-occupied real estate lending. The repayment of these loans typically is dependent on a successful operation and income stream of the borrower and the real estate securing the loan as collateral. These risks can be significantly affected by economic conditions. In addition, commercial mortgage loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family mortgage loans. Consequently, such loans typically require substantially greater evaluation and oversight efforts compared to residential real estate lending.

Commercial Business Loans. We also originate commercial term loans and lines of credit to a variety of professionals, sole proprietorships and small businesses in our market area including loans originated through the SBA in which the Bank participates as a Preferred Lender. The factors noted earlier that impacted residential and commercial mortgage loan origination volume during fiscal 2012 also adversely impacted the origination volume of commercial business loans. Nevertheless, the Bank originated approximately $18.0 million of commercial business loans during the year ended June 30, 2012 compared to $11.5 million during the year ended June 30, 2011. However, commercial business loan repayments and sales outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

The net decline in the portfolio reflected the sale of $6.5 million of SBA loan participations which resulted in the recognition of related sale gains totaling approximately $661,000. By comparison, the Bank sold $5.1 million of SBA loan participations during fiscal 2011 which resulted in the recognition of related sale gains totaling approximately $517,000. The Company's business plan continues to call for increased emphasis on originating commercial business loans, including the origination and sale of SBA loans, as part of its strategic focus on commercial lending.

Approximately $79.0 million or 89.3% of our commercial business loans are "non-SBA" loans. Of these loans, approximately $75.6 million or 95.7% represent secured loans that are primarily collateralized by real estate or, to a lesser extent, other forms of collateral. The remaining $3.4 million or 4.3% represent unsecured loans to our business customers. We generally require personal guarantees on all "non-SBA" commercial business loans. Marketable securities may also be accepted as collateral on lines of credit, but with a loan to value limit of 50%. The loan to value limit on secured commercial lines of credit and term loans is otherwise generally limited to 70%. We also make unsecured commercial loans in the form of overdraft checking authorization up to $25,000 and unsecured lines of credit up to $25,000. Our "non-SBA" commercial term loans generally have terms of up to 20 years and are mostly fixed-rate loans. Our commercial lines of credit have terms of up to two years and are generally adjustable-rate loans. We also offer a one-year, interest-only commercial line of credit with a balloon payment.

The remaining $9.4 million or 10.7% of commercial business loans represent the retained portion of SBA loan originations. Such loans are generally secured by various forms of collateral, including real estate, business equipment and other forms of collateral. The Bank generally chooses to sell the guaranteed portion of SBA loan originated which ranges from 50% to 90% of the loan's outstanding balance while retaining the nonguaranteed portion of the loan in portfolio. However, the Bank may also elect to retain the guaranteed portion of such loans in lieu of selling the guaranteed portion. At June 30, 2012, approximately $3.3 million of the retained portion of the Bank's SBA loans is guaranteed by the Small Business Administration.

Unlike single-family, owner-occupied residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans, including those originated under SBA programs, are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the

availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial business loans, therefore, generally have greater credit risk than residential mortgage loans. In addition, commercial business loans may carry larger balances to single borrowers or related groups of borrowers than one-to-four family first mortgage loans. As such, commercial business lending requires substantially greater evaluation and oversight efforts compared to residential or commercial real estate lending.

Home Equity Loans and Lines of Credit. Our home equity loans are fixed-rate loans for terms of generally up to 20 years. We also offer fixed-rate and adjustable-rate home equity lines of credit with terms of up to 15 years. The factors noted above that impacted one-to-four family loan origination volume during fiscal 2012 also adversely impacted the origination volume of home equity loans and lines of credit. Nevertheless, the Bank originated $35.7 million of home equity loans and home equity lines of credit compared to $20.5 million in the year ended June 30, 2011. However, repayments of home equity loans and lines of credit outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

Collateral value is determined through a property value analysis report provided by a state certified or licensed independent appraiser. In some cases, we determine collateral value by a full appraisal performed by a state certified or licensed independent appraiser. Home equity loans and lines of credit do not require title insurance but do require homeowner, liability and fire insurance and, if applicable, flood insurance.

Home equity loans and fixed-rate home equity lines of credit are generally originated in our market area and are generally made in amounts of up to 80% of value on term loans and of up to 75% of value on home equity adjustable-rate lines of credit. We originate home equity loans secured by either a first lien or a second lien on the property.

Other Consumer Loans. In addition to home equity loans and lines of credit, our consumer loan portfolio primarily includes loans secured by savings accounts and certificates of deposit on deposit with the Bank and overdraft lines of credit as well as vehicle loans and personal loans. We will generally lend up to 90% of the account balance on a loan secured by a savings account or certificate of deposit.

Consumer loans entail greater risks than residential mortgage loans, particularly consumer loans that are unsecured. Consumer loan repayment is dependent on the borrower's continuing financial stability and is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. The application of various federal laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on consumer loans in the event of a default.

Our underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment and any additional verifiable secondary income.

Construction Lending. Our construction lending includes loans to individuals for construction of one-to-four family residences or for major renovations or improvements to an existing dwelling. Our construction lending also includes loans to builders and developers for multi-unit buildings or multi-house projects. All of our construction lending is in New Jersey. During the year ended June 30, 2012, construction loan disbursements were $12.0 million compared to $3.0 million during the year ended June 30, 2011. However, the repayment of construction loans more than offset these disbursements during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan

portfolio. The level of construction loan activity continues to reflect many of the same factors that have adversely impacted the origination volume of other loan categories during fiscal 2012.

Construction borrowers must hold title to the land free and clear of any liens. Financing for construction loans is limited to 80% of the anticipated appraised value of the completed property. Disbursements are made in accordance with inspection reports by our approved appraisal firms. Terms of financing are generally limited to one year with an interest rate tied to the prime rate published in the Wall Street Journal and may include a premium of one or more points. In some cases, we convert a construction loan to a permanent mortgage loan upon completion of construction.

We have no formal limits as to the number of projects a builder has under construction or development and make a case-by-case determination on loans to builders and developers who have multiple projects under development. The Board of Directors reviews the Bank's business relationship with a builder or developer prior to accepting a loan application for processing. We generally do not make construction loans to builders on a speculative basis. There must be a contract for sale in place. Financing is provided for up to two houses at a time in a multi-house project, requiring a contract on one of the two houses before financing for the next house may be obtained.

Construction lending is generally considered to involve a higher degree of credit risk than mortgage lending. If the initial estimate of construction cost proves to be inaccurate, we may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period.

Loans to One Borrower. Federal law generally limits the amount that a savings institution may lend to one borrower to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. Accordingly, as of June 30, 2012, our loans-to-one-borrower limit was approximately $50.2 million.

At June 30, 2012, our largest single borrower had an aggregate loan balance of approximately $13.1 million, representing four mortgage loans secured by commercial real estate. Our second largest single borrower had an aggregate loan balance of approximately $9.2 million, representing two loans secured by commercial real estate. Our third largest borrower had an aggregate loan balance of approximately $7.9 million, representing ten loans secured by commercial real estate, two residential construction loans and one residential loan. At June 30, 2012, all of these lending relationships were current and performing in accordance with the terms of their loan agreements. By comparison, at June 30, 2011, loans outstanding to the Bank's three largest borrowers totaled approximately $13.6 million, $9.5 million and $7.6 million, respectively.

Loan Originations, Purchases, Sales, Solicitation and Processing. The following table shows total loans originated, purchased, acquired and repaid during the periods indicated.

	For the Years Ended June 30, 2012	2011	2010
	(In Thousands)		
Loans originated and purchased:			
Loan originations:			
Real estate mortgage:			
One-to-four family	$ 66,456	$ 76,749	$ 102,116
Multi-family and commercial	95,534	40,282	31,002
Commercial business	17,968	11,544	3,457
Construction	12,004	3,029	7,081
Consumer:			
Home equity loans and lines of credit	35,741	20,484	30,622
Passbook or certificate	2,740	1,045	843
Other	504	571	469
Total loan originations	230,947	153,704	175,590
Loan purchases:			
Real estate mortgage:			
One-to-four family	22,185	4,366	31,216
Multi-family and commercial	57,829	-	-
Total loans purchased	80,014	4,366	31,216
Loans acquired from Central Jersey	-	347,721	-
Loans sold:			
One-to-four family	-	(2,574)	-
Commercial SBA participations	(6,462)	(5,056)	-
Total loan sold	(6,462)	(7,630)	-
Loan principal repayments	(280,578)	(238,404)	(239,697)
Decrease due to other items	(6,386)	(8,325)	(1,370)
Net increase (decrease) in loan portfolio	$ 17,535	$ 251,432	$ (34,261)

In connection with the acquisition of Central Jersey during fiscal 2011, the Company acquired loans with a fair value of $347.7 million at the time of acquisition. The Company estimated the fair value of non-impaired loans acquired from Central Jersey by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity, and repricing terms. Cash flows for each pool were projected using an estimate of future credit losses and rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The portion of the fair valuation attributable to expected future credit losses on non-impaired loans totaled approximately $3.5 million or 1.05% of their outstanding balances.

To estimate the fair value of impaired loans acquired from Central Jersey, the Company analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans are derived from the eventual sale of the collateral. The value of the collateral was generally based on recently completed appraisals. The Company discounted these values using market derived rates of return, with consideration given to the period of time and cost associated with the foreclosure and disposition of the

collateral. The portion of the fair valuation attributable to expected future credit losses on impaired loans totaled approximately $7.6 million.

Our customary sources of loan applications include loans originated by our commercial and residential loan officers, repeat customers, referrals from realtors and other professionals and “walk-in” customers. These sources are supported in varying degrees by our newspaper and electronic advertising and marketing strategies.

The Bank maintains loan purchase and servicing agreements with three large nationwide lenders, in order to supplement the Bank’s residential mortgage loan production pipeline. The original agreements called for the purchase of loan pools that contain mortgages on residential properties in our lending area. Subsequently, we expanded our loan purchase and servicing agreements with the same nationwide lenders to include mortgage loans secured by residential real estate located outside of New Jersey. We have procedures in place for purchasing these mortgages such that the underwriting guidelines are consistent with those used in our in-house loan origination process. The evaluation and approval process ensures that the purchased loans generally conform to our normal underwriting guidelines. Our due diligence process includes full credit reviews and an examination of the title policy and associated legal instruments. We recalculate debt service and loan-to-value ratios for accuracy and review appraisals for reasonableness. All loan packages presented to the Bank must meet the Bank’s underwriting requirements as outlined in the purchase and servicing agreements and are subject to the same review process outlined above. Furthermore, there are stricter underwriting guidelines in place for out-of-state mortgages, including higher minimum credit scores. During the year ended June 30, 2012, we purchased fixed-rate loans with principal balances totaling $3.8 million from these sellers.

Once we purchase the loans, we continually monitor the seller’s performance by thoroughly reviewing portfolio balancing reports, remittance reports, delinquency reports and other data supplied to us on a monthly basis. We also review the seller’s financial statements and documentation as to their compliance with the servicing standards established by the Mortgage Bankers Association of America.

As of June 30, 2012, our portfolio of out-of-state loans included residential mortgages in 21 states and totaled approximately $38.4 million or 6.8% of one-to-four family mortgage loans. The states with the two largest concentrations of loans at June 30, 2012 were Georgia and Texas with outstanding principal balances totaling $4.2 million and $3.8 million, respectively. The aggregate outstanding balances of loans in each of the remaining 19 states comprise less than 10% of the total balance of out-of-state loans.

The Bank also enters into purchase agreements with a limited number of mortgage originators to supplement the Bank’s loan production pipeline. These agreements call for the purchase, on a flow basis, of one-to-four family first mortgage loans with servicing released to the Bank. During the year ended June 30, 2012, we purchased fixed-rate loans with principal balances totaling $17.6 million from these sellers.

In addition to purchasing one-to-four family loans, we also purchase participations in commercial mortgage loans originated by other banks and non-bank originators. During the year ended June 30, 2012, we purchased commercial loan participations totaling approximately $57.8 million. The number and aggregate outstanding balance of commercial loan participations totaled 30 and $58.0 million at June 30, 2012, respectively, representing loans on a variety of multi-family and commercial real estate properties.

The participations noted above exclude those acquired through the Thrift Institutions Community Investment Corporation of New Jersey (“TICIC”), a subsidiary of the New Jersey Bankers Association that is no longer actively originating loans. At June 30, 2012, our remaining TICIC participations

included a total of 26 loans with an aggregate balance of $5.5 million representing loans on multi-family and commercial real estate properties.

Loan Approval Procedures and Authority. Senior management recommends and the Board of Directors approves our lending policies and loan approval limits. The Bank's Loan Committee consists of the Chief Lending Officer, Chief Credit Officer, Divisional President, Director of Commercial Lending and Vice President of Commercial Loan Operations. The Committee may approve loans up to $2.0 million. Our Chief Lending Officer may approve loans up to $750,000. Loan department personnel of the Bank serving in the following positions may approve loans as follows: commercial/mortgage loan managers, mortgage loans up to $500,000; mortgage loan underwriters, mortgage loans up to $250,000; consumer loan managers, consumer loans up to $250,000; and consumer loan underwriters, consumer loans up to $150,000. In addition to these principal amount limits, there are established limits for different levels of approval authority as to minimum credit scores and maximum loan to value ratios and debt to income ratios or debt service coverage. Our Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer have authorization to countersign loans for amounts that exceed $750,000 up to a limit of $1.0 million. Our Chief Lending Officer must approve loans between $750,000 and $1.0 million along with one of these designated officers. Non-conforming mortgage loans and loans over $1.0 million, up to $2.0 million require the approval of the Loan Committee. All loans in excess of $2.0 million require approval by the Board of Directors.

Asset Quality

Collection Procedures on Delinquent Loans. The Company regularly monitors the payment status of all loans within its portfolio and promptly initiates collections efforts on past due loans in accordance with applicable policies and procedures. Delinquent borrowers are notified by both mail and telephone when a loan is 30 days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. However, when a loan is 90 days delinquent, it is our general practice to refer it to an attorney for repossession, foreclosure or other form of collection action, as appropriate. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial write-down of the property, if necessary, is charged to the allowance for loan losses ("ALLL"). Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines are identified.

Past Due Loans. A loan's "past due" status is generally determined based upon its "P&I delinquency" status in conjunction with its "past maturity" status, where applicable. A loan's "P&I delinquency" status is based upon the number of calendar days between the date of the earliest P&I payment due and the "as of" measurement date. A loan's "past maturity" status, where applicable, is based upon the number of calendar days between a loan's contractual maturity date and the "as of" measurement date. Based upon the larger of these criteria, loans are categorized into the following "past due" tiers for financial statement reporting and disclosure purposes: Current (including 1-29 days past due), 30-59 days, 60-89 days and 90 or more days.

Nonaccrual Loans. Loans are generally placed on nonaccrual status when contractual payments become 90 days or more past due, and are otherwise placed on nonaccrual when the Company does not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement. Loans that become 90 days past maturity, but remain non-delinquent with regard to ongoing P&I payments may remain on accrual status if: (1) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, past maturity status notwithstanding, and (2) the borrower is working actively and cooperatively with the Company to remedy the past maturity status through an expected refinance, payoff or modification of the loan agreement that is not expected to result in a troubled debt restructuring ("TDR") classification. All TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of past due status. The sum of nonaccrual loans plus accruing loans that are 90 days or more past due are generally defined as "nonperforming loans".

Payments received in cash on nonaccrual loans, including both the principal and interest portions of those payments, are generally applied to reduce the carrying value of the loan for financial statement purposes. When a loan is returned to accrual status, any accumulated interest payments previously applied to the carrying value of the loan during its nonaccrual period are recognized as interest income as an adjustment to the loan's yield over its remaining term.

Loans that are not considered to be TDRs are generally returned to accrual status when payments due are brought current and the Company expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. Non-TDR loans may also be returned to accrual status when a loan's payment status falls below 90 days past due and the Company: (1) expects receipt of the remaining past due amounts within a reasonable timeframe, and (2) expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement.

Nonperforming Assets. The following table provides information regarding the Bank's nonperforming assets which are comprised of nonaccrual loans, accruing loans 90 days or more past due and real estate owned.

	At June 30,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Loans accounted for on a nonaccrual basis:					
Real estate mortgage:					
One- to four-family	$ 14,917	$ 4,056	$ 1,867	$ 2,120	$ 530
Multi-family and commercial	11,008	7,429	4,358	5,626	1,012
Commercial business	3,941	4,866	2,298	—	—
Consumer:					
Home equity loans	984	204	250	27	31
Home equity lines of credit	193	93	—	—	—
Other	6	22	1	—	—
Construction	1,758	1,654	468	362	—
Total	32,807	18,324	9,242	8,135	1,573
Accruing loans which are contractually past due 90 days or more:					
Real estate mortgage:					
One- to four-family	-	14,923	12,321	5,017	—
Multi-family and commercial	398	—	—	—	—
Commercial business	293	1,718	—	—	—
Consumer:	—	—	—	—	
Home equity loans and lines of credit	—	—	—	—	—
Passbook or certificate	—	—	—	—	—
Other	—	—	—	—	—
Construction	—	—	—	—	—
Total	691	16,641	12,321	5,017	—
Total nonperforming loans	$ 33,498	$ 34,965	$ 21,563	$ 13,152	$ 1,573
Real estate owned	$ 3,811	$ 7,497	$ 146	$ 109	$ 109
Other nonperforming assets	$ —	$ —	$ —	$ —	$ —
Total nonperforming assets	$ 37,309	$ 42,462	$ 21,709	$ 13,261	$ 1,682
Total nonperforming loans to total loans	2.61%	2.76%	2.13%	1.26%	0.15%
Total nonperforming loans to total assets	1.14%	1.20%	0.92%	0.62%	0.08%
Total nonperforming assets to total assets	1.27%	1.46%	0.93%	0.62%	0.08%

Total nonperforming assets decreased by $5.2 million to $37.3 million at June 30, 2012 from $42.5 million at June 30, 2011. The decrease comprised a net decline in nonperforming loans of $1.5 million plus a net decrease in real estate owned of $3.7 million. For those same comparative periods, the number of nonperforming loans increased to 122 loans from 114 loans while the number of real estate owned properties remained unchanged at eight.

At June 30, 2012, nonperforming loans comprised $32.8 million of "nonaccrual" loans and $691,000 of "accruing loans over 90 days past due". By comparison, at June 30, 2011 the balance of such loans totaled $18.3 million and $16.7 million, respectively. A significant portion of the non-performing loans reported as "accruing loans over 90 days past due" prior to fiscal 2012 were originally acquired from Countrywide Home Loans, Inc. ("Countrywide") and continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP ("BOA"). In accordance with our agreement, BOA advances scheduled principal and interest payments to the Bank when such payments are not made by the borrower. Prior to fiscal 2012, the timely receipt of principal and interest from the servicer resulted in such loans retaining their accrual status. However, the delinquency status reported for these nonperforming loans reflected the borrower's actual delinquency irrespective of the Bank's receipt of advances. In recognition that advances would ultimately be recouped by BOA from the Bank in the event the borrower did not reinstate the loan, the Bank included its obligation to refund such advances to the servicer, where applicable, in its impairment analyses of such loans.

Notwithstanding this prior practice, the Bank reclassified the applicable nonperforming BOA loans from "accruing loans over 90 days past due" to "nonaccrual" during fiscal 2012. Since that time, interest payments received on the applicable BOA loans have been applied to reduce the carrying value of the loan for financial statement purposes rather than being recognized as interest income.

Nonperforming one-to-four family mortgage loans include 53 nonaccrual loans totaling $14.9 million whose net outstanding balances range from $1,000 to $656,000 with an average balance of approximately $281,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties, with one out-of-state loan totaling $656,000 secured by a property located in South Carolina. The Company has identified approximately $1,240,000 of specific impairment relating to 14 of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

The number and balance of nonperforming one-to-four family mortgage loans at June 30, 2012 includes 38 loans totaling $11.6 million that were originally acquired from Countrywide with such loans comprising 34.6% of total nonperforming loans as of June 30, 2012. As of that same date, the Bank owned a total of 116 residential mortgage loans with an aggregate outstanding balance of $54.9 million that were originally acquired from Countrywide. Of these loans, an additional four loans totaling $1.6 million are 30-89 days past due and are in various stages of collection.

Nonperforming commercial real estate loans, including multi-family and nonresidential mortgage loans, include 21 nonaccrual loans totaling $11,008,000 and one loan totaling $398,000 reported as over 90 days past due and accruing. At June 30, 2012, the outstanding balances of these loans range from $10,000 to $1,852,000 with an average balance of approximately $518,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are secured by New Jersey properties. The Company has identified approximately $667,000 of specific impairment relating to five of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

Nonperforming commercial business loans include 17 nonaccrual loans totaling $3,941,000 and two accruing loans totaling $293,000 that are 90 days or more past due. At June 30, 2012, the outstanding balances of these loans range from $12,000 to $926,000 with an average balance of approximately $223,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties and, to a lesser extent, other forms of collateral. One loan totaling approximately $80,000 is unsecured. The Company has identified approximately $776,000 of specific impairment relating to nine of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

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Home equity loans and home equity lines of credit that are reported as nonperforming include 13 nonaccrual loans totaling $1,177,000. At June 30, 2012, the outstanding balances of these loans range from $17,000 to $198,000 with an average balance of approximately $91,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties. The Company has identified approximately $127,000 of specific impairment relating to three of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

Other consumer loans that are reported as nonperforming include three nonaccrual loans totaling $6,000 including one $4,000 secured vehicle loan and two other unsecured consumer loans totaling $2,000 that are in various stages of collection.

Finally, nonperforming construction loans include four nonaccrual loans totaling $1,758,000. At June 30, 2012, the outstanding balances of these loans range from $315,000 to $580,000 with an average balance of approximately $439,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are secured by New Jersey properties in varying stages of development. The Company has identified no specific impairment relating to these nonperforming loans at June 30, 2012.

During the years ended June 30, 2012, 2011 and 2010, gross interest income of $1,697,000, $591,000 and $629,000, respectively, would have been recognized on loans accounted for on a nonaccrual basis if those loans had been current. Interest income recognized on such loans of $134,000, $289,000 and $233,000 was included in income for the years ended June 30, 2012, 2011 and 2010, respectively.

At June 30, 2012, 2011 and 2010, the Bank had loans with aggregate outstanding balances totaling $6,679,000, $2,346,000 and $945,000, respectively, reported as troubled debt restructurings.

During the year ended June 30, 2012, gross interest income of $188,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $165,000 was recognized on such loans for the year ended June 30, 2012 reflecting the interest received under the revised terms of those restructured loans.

During the year ended June 30, 2011, gross interest income of $125,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $73,000 was recognized on such loans for the year ended June 30, 2011 reflecting the interest received under the revised terms of those restructured loans.

During the year ended June 30, 2010, gross interest income of $63,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $46,000 was recognized on such loans for the year ended June 30, 2010 reflecting the interest received under the revised terms of those restructured loans.

No loans were reported as troubled debt restructurings at June 30, 2009 and 2008.

Loan Review System. The Company maintains a loan review system consisting of several related functions including, but not limited to, classification of assets, calculation of the allowance for loan losses, independent credit file review as well as internal audit and lending compliance reviews. The Company utilizes both internal and external resources, where appropriate, to perform the various loan review functions. For example, the Company has engaged the services of a third party firm specializing in loan review and analysis to perform several loan review functions. The firm reviews the loan portfolio in accordance with the scope and frequency determined by senior management and the Asset Quality Committee of the Board of Directors. The third party loan review firm assists senior management and the Board of Directors in identifying potential credit weaknesses; in appropriately grading or adversely classifying loans; in identifying relevant trends that affect the collectability of the portfolio and identifying segments of the portfolio that are potential problem areas; in verifying the appropriateness of the allowance for loan losses; in evaluating the activities of lending personnel including compliance with lending policies and the quality of their loan approval, monitoring and risk assessment; and by providing an objective assessment of the overall quality of the loan portfolio. Currently, independent loan reviews are being conducted quarterly and include non-performing loans as well as samples of performing loans of varying types within the Company's portfolio.

The Company's loan review system also includes the internal audit and compliance functions, which operate in accordance with a scope determined by the Audit and Compliance Committee of the Board of Directors. Internal audit resources assess the adequacy of, and adherence to, internal credit policies and loan administration procedures. Similarly, the Company's compliance resources monitor adherence to relevant lending-related and consumer protection-related laws and regulations. The loan review system is structured in such a way that the internal audit function maintains the ability to independently audit other risk monitoring functions without impairing its independence with respect to these other functions.

As noted, the loan review system also comprises the Company's policies and procedures relating to the regulatory classification of assets and the allowance for loan loss functions each of which are described in greater detail below.

Classification of Assets. In compliance with the regulatory guidelines, the Company's loan review system includes an evaluation process through which certain loans exhibiting adverse credit quality characteristics are classified "Special Mention", "Substandard", "Doubtful" or "Loss".

An asset is classified as "Substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified as "Substandard", with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets, or portions thereof, classified as "Loss" are considered uncollectible or of so little value that their continuance as assets is not warranted.

Management evaluates loans classified as substandard or doubtful for impairment in accordance with applicable accounting requirements. As discussed in greater detail below, a valuation allowance is established through the provision for loan losses for any impairment identified through such evaluations. To the extent that impairment identified on a loan is classified as “Loss”, that portion of the loan is charged off against the allowance for loan losses. In a limited number of cases, the entire net carrying value of a loan may be determined to be impaired based upon a collateral-dependent impairment analysis. However, the borrower’s adherence to contractual repayment terms precludes the recognition of a “Loss” classification and charge off. In these limited cases, a valuation allowance equal to 100% of the impaired loan’s carrying value may be maintained against the net carrying value of the asset.

In the past, the Company’s impaired loans with impairment were characterized by “split classifications” (ex. Substandard/Loss) with all loan impairment being ascribed a “Loss” classification by default and charge offs being recorded against the allowance for loan loss at the time such losses were realized. For loans primarily secured by real estate, which have historically comprised over 90% of the Company’s loan portfolio, the recognition of impairments as “charge offs” typically coincided with the foreclosure of the property securing the impaired loan at which time the property was brought into real estate owned at its fair value, less estimated selling costs, and any portion of the loan’s carrying value in excess of that amount was charged off against the ALLL.

During the year ended June 30, 2012, the Bank modified its loan classification and charge off practices to more closely align them to those of other institutions regulated by the Office of the Comptroller of the Currency (“OCC”). The OCC succeeded the Office of Thrift Supervision (“OTS”) as the Bank’s primary regulator effective July 21, 2011. The classification of loan impairment as “Loss” is now based upon a confirmed expectation for loss, rather than simply equating impairment with a “Loss” classification by default. For loans primarily secured by real estate, the expectation for loss is generally confirmed when: (a) impairment is identified on a loan individually evaluated in the manner described below and, (b) the loan is presumed to be collateral-dependent such that the source of loan repayment is expected to arise solely from sale of the collateral securing the applicable loan. Impairment identified on non-collateral-dependent loans may or may not be eligible for a “Loss” classification depending upon the other salient facts and circumstances that effect the manner and likelihood of loan repayment. However, loan impairment that is classified as “Loss” is now charged off against the ALLL concurrent with that classification rather than deferring the charge off of confirmed expected losses until they are “realized”.

Assets which do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but have some credit deficiencies or other potential weaknesses are designated as “Special Mention” by management. Adversely classified assets, together with those rated as “Special Mention”, are generally referred to as “Classified Assets”. Non-classified assets are internally rated within one of four “Pass” categories or as “Watch” with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Management performs a classification of assets review, including the regulatory classification of assets, generally on a monthly basis. The results of the classification of assets review are validated by the Company’s third party loan review firm during their quarterly, independent review. In the event of a difference in rating or classification between those assigned by the internal and external resources, the Company will generally utilize the more critical or conservative rating or classification. Final loan ratings and regulatory classifications are presented monthly to the Board of Directors and are reviewed by regulators during the examination process.

The following table discloses our designation of certain loans as special mention or adversely classified during each of the five years presented. See Page 38 for discussion regarding classified securities.

	At June 30,				
	2012	2011	2010	2009	2008
	(In Thousands)				
Special Mention	$ 20,297	$ 11,141	$ 10,353	$ 3,506	$ —
Substandard	48,131	39,093	18,697	14,891	749
Doubtful	892	614	—	817	1,871
Loss (1)	—	—	—	—	—
Total	$ 69,320	$ 50,846	$ 29,050	$ 19,214	$ 2,620

(1) Net of specific valuation allowances where applicable

At June 30, 2012, 56 loans were classified as Special Mention and 154 loans were classified as Substandard. As of that same date, two loans were classified as Doubtful. As noted above, all loans, or portions thereof, classified as Loss during fiscal 2012 were charged off against the allowance for loan losses.

Allowance for Loan Losses. The Company's allowance for loan loss calculation methodology utilizes a "two-tier" loss measurement process that is generally performed monthly. Based upon the results of the classification of assets and credit file review processes described earlier, the Company first identifies the loans that must be reviewed individually for impairment. Factors considered in identifying individual loans to be reviewed include, but may not be limited to, loan type, classification status, contractual payment status, performance/accrual status and impaired status.

Traditionally, the loans considered by the Company to be eligible for individual impairment review have generally represented its larger and/or more complex loans including its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, as well as its construction loans and commercial business loans. During fiscal 2011, the Company expanded the scope of loans that it considers eligible for individual impairment review to also include all one-to-four family mortgage loans as well as its home equity loans and home equity lines of credit.

A reviewed loan is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, management performs an analysis to determine the amount of impairment associated with that loan.

In measuring the impairment associated with collateral dependent loans, the fair value of the real estate collateralizing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. Such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser.

The Company generally obtains independent appraisals on properties securing mortgage loans when such loans are initially placed on nonperforming or impaired status with such values updated approximately every six to twelve months thereafter throughout the collections, bankruptcy and/or foreclosure processes. Appraised values are typically updated at the point of foreclosure, where

applicable, and approximately every six to twelve months thereafter while the repossessed property is held as real estate owned.

As supported by accounting and regulatory guidance, the Company reduces the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan.

The Company establishes valuation allowances in the fiscal period during which the loan impairments are identified. The results of management's individual loan impairment evaluations are validated by the Company's third party loan review firm during their quarterly, independent review. Such valuation allowances are adjusted in subsequent fiscal periods, where appropriate, to reflect any changes in carrying value or fair value identified during subsequent impairment evaluations which are generally updated monthly by management.

The second tier of the loss measurement process involves estimating the probable and estimable losses which addresses loans not otherwise reviewed individually for impairment as well as those individually reviewed loans that are determined to be non-impaired. Such loans include groups of smaller-balance homogeneous loans that may generally be excluded from individual impairment analysis, and therefore collectively evaluated for impairment, as well as the non-impaired loans within categories that are otherwise eligible for individual impairment review.

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary categories: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans. Each primary category is further stratified into subcategories that distinguish between loans originated, loans acquired through business combinations and, where relevant, loans purchased from third parties. Subcategories within commercial business loans and consumer loans also distinguish between secured and unsecured loan types while commercial business loan subcategories also identify loans originated through SBA programs.

In regard to historical loss factors, the Company's allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company currently utilizes a two-year moving average of annual net charge-off rates (charge-offs net of recoveries) by loan segment, where available, to calculate its actual, historical loss experience. The outstanding principal balance of the non-impaired portion of each loan segment is multiplied by the applicable historical loss factor to estimate the level of probable losses based upon the Company's historical loss experience.

The timeframe between when loan impairment is first identified by the Company and when such impairment may ultimately be charged off varies by loan type. For example, unsecured consumer and commercial loans are generally classified as "Loss" at 120 days past due resulting in their outstanding balances being charged off at that time.

By contrast, the timing of charges offs regarding the impairment associated with secured loans has historically been far more variable. The Company's secured loans, comprising a large majority of its total loan portfolio, consist primarily of residential and nonresidential mortgage loans and commercial/business loans secured by properties located in New Jersey where the foreclosure process currently takes 24-36 months to complete. Prior to fiscal 2012, charge offs of the impairment identified on loans secured by real estate were generally recognized upon completion of foreclosure at which time: (a) the property was brought into real estate owned at its fair value, less estimated selling costs, (b) any portion of the loan's carrying value in excess of that amount was charged off against the ALLL, and (c) the historical loss factors used in the Company's ALLL calculations were updated to reflect the actual realized loss. Accordingly, the historical loss factors used in the Company's allowance for loan loss calculations during prior periods did not reflect the probable losses on impaired loans until such time that the losses were realized as charge offs.

As a result of the noted changes to the Company's loan classification and charge off practices during fiscal 2012, the charge off of impairments relating to secured loans are now generally recognized upon the confirmation of an expected loss rather than deferring the charge off of loan impairments until such losses are realized.

For the Company's secured loans, the condition of collateral dependency generally serves as the basis upon which a "Loss" classification is ascribed to a loan's impairment thereby confirming an expected loss and triggering charge off of that impairment. While the facts and circumstances that effect the manner and likelihood of repayment vary from loan to loan, the Company generally considers the referral of a loan to foreclosure, coupled with the absence of other viable sources of loan repayment, to be demonstrable evidence of collateral dependency. Depending upon the nature of the collections process applicable to a particular loan, an early determination of collateral dependency could result in a nearly concurrent charge off of a newly identified impairment. By contrast, a presumption of collateral dependency may only be determined after the completion of lengthy loan collection and/or workout efforts, including bankruptcy proceedings, which may extend several months or more after a loan's impairment is first identified.

Regardless, the recognition of charge offs based upon confirmed expected losses rather than realized losses has generally accelerated the timing of their recognition compared to prior years. Toward that end, the adoption of this change to the Company's ALLL methodology during fiscal 2012 resulted in the charge off of approximately $4.2 million of confirmed expected losses for which valuation allowances had been previously established for identified impairments. The historical loss factors used in the Company's allowance for loan loss calculations were updated to reflect these charge offs and have continued to reflect the charge off of confirmed expected losses since that time.

As noted, the second tier of the Company's allowance for loan loss calculation also utilizes environmental loss factors to estimate the probable losses within the loan portfolio. Environmental loss factors are based upon specific qualitative criteria representing key sources of risk within the loan portfolio. Such risk criteria includes the level of and trends in nonperforming loans; the effects of changes in credit policy; the experience, ability and depth of the lending function's management and staff; national and local economic trends and conditions; credit risk concentrations and changes in local and regional real estate values. For each category of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk). The sum of the risk values, expressed as a whole number, is multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each loan category.

During prior years, the aggregate outstanding principal balance of the non-impaired loans within each loan category was simply multiplied by the applicable environmental loss factor, as described above, to estimate the level of probable losses based upon the qualitative risk criteria. To more closely align its ALLL calculation methodology to that of other institutions regulated by the OCC, the Company modified its ALLL calculation methodology to explicitly incorporate its existing credit-rating classification system into the calculation of environmental loss factors by loan type. Toward that end, the Company implemented the use of risk-rating classification "weights" into its calculation of environmental loss factors during fiscal 2012.

The Company's existing risk-rating classification system ascribes a numerical rating of "1" through "9" to each loan within the portfolio. The ratings "5" through "9" represent the numerical equivalents of the traditional loan classifications "Watch", "Special Mention", "Substandard", "Doubtful" and "Loss", respectively, while lower ratings, "1" through "4", repre risk-ratings within the least risky "Pass" category. The environmental loss factor applicable to each non-impaired loan within a category, as described above, is "weighted" by a multiplier based upon the loan's risk-rating classification. Within any single loan category, a "higher" environmental loss factor is now ascribed to those loans with comparatively higher risk-rating classifications resulting in a proportionately greater ALLL requirement attributable to such loans compared to the comparatively lower risk-rated loans within that category.

In evaluating the impact of the level and trends in nonperforming loans on environmental loss factors, the Company first broadly considers the occurrence and overall magnitude of prior losses recognized on such loans over an extended period of time. For this purpose, losses are considered to include both charge offs as well as loan impairments for which valuation allowances have been recognized through provisions to the allowance for loan losses, but have not yet been charged off. To the extent that prior losses have generally been recognized on nonperforming loans within a category, a basis is established to recognize existing losses on loans collectively evaluated for impairment based upon the current levels of nonperforming loans within that category. Conversely, the absence of material prior losses attributable to delinquent or nonperforming loans within a category may significantly diminish, or even preclude, the consideration of the level of nonperforming loans in the calculation of the environmental loss factors attributable to that category of loans.

Once the basis for considering the level of nonperforming loans on environmental loss factors is established, the Company then considers the current dollar amount of nonperforming loans by loan type in relation to the total outstanding balance of loans within the category. A greater portion of nonperforming loans within a category in relation to the total suggests a comparatively greater level of risk and expected loss within that loan category and vice-versa.

In addition to considering the current level of nonperforming loans in relation to the total outstanding balance for each category, the Company also considers the degree to which those levels have changed from period to period. A significant and sustained increase in nonperforming loans over a 12-24 month period suggests a growing level of expected loss within that loan category and vice-versa.

As noted above, the Company considers these factors in a qualitative, rather than quantitative fashion when ascribing the risk value, as described above, to the level and trends of nonperforming loans that is applicable to a particular loan category. As with all environmental loss factors, the risk value assigned ultimately reflects the Company's best judgment as to the level of expected losses on loans collectively evaluated for impairment.

The sum of the probable and estimable loan losses calculated through the first and second tiers of the loss measurement processes as described above, represents the total targeted balance for the Company's allowance for loan losses at the end of a fiscal period. As noted earlier, the Company establishes all additional valuation allowances in the fiscal period during which additional individually identified loan impairments and additional estimated losses on loans collectively evaluated for impairment are identified. The Company adjusts its balance of valuation allowances through the provision for loan losses as required to ensure that the balance of the allowance for loan losses reflects all probable and estimable loans losses at the close of the fiscal period. Notwithstanding calculation

methodology and the noted distinction between valuation allowances established on loans collectively versus individually evaluated for impairment, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

Although management believes that the Company's allowance for loans losses is established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further additions to the level of loan loss allowances may be necessary.

The following table sets forth information with respect to activity in the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Allowance balance (at beginning of period)	$ 11,767	$ 8,561	$ 6,434	$ 6,104	$ 6,049
Provision for loan losses	5,750	4,628	2,616	317	94
Charge-offs:					
One-to-four family mortgage	6,398	931	202	2	30
Home equity loan	135	7	16	—	—
Commercial mortgage	483	—	322	—	—
Commercial business	349	5	—	—	—
Construction	106	492	—	—	—
Other	9	7	1	3	9
Total charge-offs	7,480	1,442	541	5	39
Recoveries:					
One-to-four family mortgage	6	6	10	—	—
Home equity loan	2	—	—	—	—
Commercial mortgage	37	2	42	—	—
Commercial business	-	11	—	18	—
Construction	33	—	—	—	—
Other	2	1	—	—	—
Total recoveries	80	20	52	18	—
Net (charge-offs) recoveries	(7,400)	(1,422)	(489)	(13)	(39)
Allowance balance (at end of period)	$ 10,117	$ 11,767	$ 8,561	$ 6,434	$ 6,104
Total loans outstanding	$ 1,285,890	$ 1,269,372	$ 1,013,149	$ 1,044,885	$ 1,026,514
Average loans outstanding	$ 1,250,307	$ 1,172,576	$ 1,030,287	$ 1,064,019	$ 951,019
Allowance for loan losses as a percent of total loans outstanding	0.79%	0.93%	0.84%	0.62%	0.59%
Net loan charge-offs as a percent of average loans outstanding	0.59%	0.12%	0.05%	0.00%	0.00%

Allowance for loan losses to non-performing loans	30.20%	33.65%	39.70%	48.92%	388.05%

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Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the total allowance for loan losses by loan category and segment and the percent of loans in each category's segment to total net loans receivable at the dates indicated. The portion of the loan loss allowance allocated to each loan segment does not represent the total available for future losses which may occur within a particular loan segment since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

	At June 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in Thousands)									
At end of period allocated to:										
Real estate mortgage:										
One-to-four family	$4,572	43.77 %	$6,644	48.13 %	$4,302	65.52 %	$3,254	65.97 %	$2,979	66.99 %
Multi-family and commercial	3,443	37.71	3,336	30.23	3,315	20.04	2,181	18.89	1,841	17.40
Commercial business	1,310	6.88	880	8.27	108	1.42	73	1.42		