VALLEY NATIONAL BANCORP
Form 10-K
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

¨ **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 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
1455 Valley Road Wayne, NJ	**07470**
(Address of principal executive office)	**(Zip code)**

973-305-8800

(Registrant s telephone number, including area code)

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

Title of each class	**Name of exchange on which registered**
Common Stock, no par value	New York Stock Exchange
VNB Capital Trust I 7.75% Trust Preferred Securities (and the Guarantee by Valley National Bancorp with respect thereto)	New York Stock Exchange
Warrants to purchase Common Stock	NASDAQ Capital Market

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 þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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 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 þ 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 ¨ 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. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 (check one):

Large accelerated filer þ Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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 þ

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1.6 billion on June 30, 2009.

There were 153,140,372 shares of Common Stock outstanding at February 23, 2010.

Documents incorporated by reference:

Certain portions of the registrant s Definitive Proxy Statement (the 2010 Proxy Statement) for the 2010 Annual Meeting of Shareholders to be held April 14, 2010 will be incorporated by reference in Part III. The 2010 proxy statement will be filed within 120 days of December 31, 2009.

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PART I

Item 1. ***Business***

The disclosures set forth in this item are qualified by Item 1A Risk Factors and the section captioned Cautionary Statement Concerning Forward-Looking Statements in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (Holding Company Act). The words Valley, the Company, we, our and us refer to Valley National Bancorp and its wholly owned subsidi unless we indicate otherwise. At December 31, 2009, Valley had consolidated total assets of $14.3 billion, total loans of $9.4 billion, total deposits of $9.5 billion and total shareholders equity of $1.3 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the Bank in this report), Valley owns all of the voting and common shares of VNB Capital Trust I and GCB Capital Trust III, through which trust preferred securities were issued. VNB Capital Trust I and GCB Capital Trust III are not consolidated subsidiaries. See Note 12 of the consolidated financial statements.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 197 full-service banking offices located throughout northern and central New Jersey and the New York City boroughs of Manhattan, Brooklyn and Queens. The Bank provides a full range of commercial and retail banking services. These services include the following: the acceptance of demand, savings and time deposits; extension of commercial, real estate and consumer loans; equipment leasing; personal and corporate trust, and pension and fiduciary services.

Valley National Bank s wholly-owned subsidiaries are all included in the consolidated financial statements of Valley (See Exhibit 21 at Part IV, Item 15 for a complete list of subsidiaries). These subsidiaries include:

- a mortgage servicing company;
- a title insurance agency;
- asset management advisors which are Securities and Exchange Commission (SEC) registered investment advisors;
- an all-line insurance agency offering property and casualty, life and health insurance;
- subsidiaries which hold, maintain and manage investment assets for the Bank;
- a subsidiary which owns and services auto loans;
- a subsidiary which specializes in asset-based lending;
- a subsidiary which offers financing for general aviation aircraft and servicing for existing commercial equipment leases; and

a subsidiary which specializes in health care equipment and other commercial equipment leases.

The Bank s subsidiaries also include real estate investment trust subsidiaries (the REIT subsidiaries) which own real estate related investments and a REIT subsidiary which owns some of the real estate utilized by the Bank and related real estate investments. Except for Valley s REIT subsidiaries, all subsidiaries mentioned above are directly or indirectly wholly-owned by the Bank. Because each REIT must have 100 or more shareholders to qualify as a REIT, each REIT has issued less than 20 percent of their outstanding non-voting preferred stock to individuals, most of whom are non-senior management Bank employees. The Bank owns the remaining preferred stock and all the common stock of the REITs.

Valley National Bank has four business segments it monitors and reports on to manage its business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Valley s Wealth Management Division comprised of trust, asset management and insurance services, is included in the consumer lending segment. For financial data on the four business segments see Note 19 of the consolidated financial statements.

SEC Reports and Corporate Governance

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto are available on our website at www.valleynationalbank.com without charge as soon as reasonably practicable after filing or furnishing them to the SEC. Also available on the website are Valley s Code of Conduct and Ethics that applies to all of our employees including our executive officers and directors, Valley s Audit and Risk Committee Charter, Valley s Compensation and Human Resources Committee Charter, Valley s Nominating and Corporate Governance Committee Charter, Valley s Corporate Governance Guidelines and Valley s Categorical Standards of Independence.

Additionally, we will provide without charge, a copy of our Annual Report on Form 10-K or the Code of Conduct and Ethics to any shareholder by mail. Requests should be sent to Valley National Bancorp, Attention: Shareholder Relations, 1455 Valley Road, Wayne, NJ 07470.

Competition

The market for banking and bank-related services is highly competitive and we face substantial competition in all phases of our operations. We compete with other providers of financial services such as other bank holding companies, commercial banks, savings institutions, credit unions, mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a growing list of other local, regional and national institutions which offer financial services. De novo branching by several national financial institutions and mergers between financial institutions within New Jersey and New York City, as well as other neighboring states have heightened the competitive pressure in our primary markets. We compete by offering quality products and convenient services at competitive prices (including interest rates paid on deposits, interest rates charged on loans and fees charged for other non-interest related services). We continually review our pricing, products, locations, alternative delivery channels and various acquisition prospects and periodically engage in discussions regarding possible acquisitions to maintain and enhance our competitive position.

Employees

At December 31, 2009, Valley National Bank and its subsidiaries employed 2,727 full-time equivalent persons. Management considers relations with its employees to be satisfactory.

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Executive Officers

Names	Age at December 31, 2009	Executive Officer Since	Office
Gerald H. Lipkin	68	1975	Chairman of the Board, President and Chief Executive Officer of Valley and Valley National Bank
Peter Crocitto	52	1991	Senior Executive Vice President, Chief Operating Officer of Valley and Valley National Bank
Alan D. Eskow	61	1993	Senior Executive Vice President, Chief Financial Officer and Corporate Secretary of Valley and Valley National Bank
Albert L. Engel	61	1998	Executive Vice President of Valley and Valley National Bank
Robert E. Farrell	63	1990	Executive Vice President of Valley and Valley National Bank
James G. Lawrence	66	2001	Executive Vice President of Valley and Valley National Bank
Robert M. Meyer	63	1997	Executive Vice President of Valley and Valley National Bank
Bernadette M. Mueller	51	2009	Executive Vice President of Valley and Valley National Bank
Robert J. Mulligan	62	1991	Executive Vice President of Valley and Valley National Bank
Elizabeth E. De Laney	45	2007	First Senior Vice President of Valley National Bank
Kermit R. Dyke	62	2001	First Senior Vice President of Valley National Bank
Richard P. Garber	66	1992	First Senior Vice President of Valley National Bank
Eric W. Gould	41	2001	First Senior Vice President of Valley National Bank
Russell C. Murawski	60	2007	First Senior Vice President of Valley National Bank
John H. Noonan	63	2006	First Senior Vice President of Valley National Bank
Ira D. Robbins	35	2009	First Senior Vice President of Valley National Bank
Stephen P. Davey	54	2002	Senior Vice President of Valley National Bank
Robert A. Ewing	55	2007	Senior Vice President of Valley National Bank

All officers serve at the pleasure of the Board of Directors.

SUPERVISION AND REGULATION

The Banking industry is highly regulated. Statutory and regulatory controls increase a bank holding company s cost of doing business and limit the options of its management to deploy assets and maximize income. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on Valley or Valley National Bank. It is intended only to briefly summarize some material provisions.

Bank Holding Company Regulation

Valley is a bank holding company within the meaning of the Holding Company Act. As a bank holding company, Valley is supervised by the Board of Governors of the Federal Reserve System (FRB) and is required to file reports with the FRB and provide such additional information as the FRB may require.

The Holding Company Act prohibits Valley, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from

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engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that it may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking as to be a proper incident thereto. The Holding Company Act requires prior approval by the FRB of the acquisition by Valley of more than five percent of the voting stock of any other bank. Satisfactory capital ratios and Community Reinvestment Act ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. The policy of the FRB provides that a bank holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support the subsidiary bank in circumstances in which it might not do so absent that policy. Acquisitions through the Bank require approval of the Office of the Comptroller of the Currency of the United States (OCC). The Holding Company Act does not place territorial restrictions on the activities of non-bank subsidiaries of bank holding companies. The Gramm-Leach-Bliley Act, discussed below, allows Valley to expand into insurance, securities, merchant banking activities, and other activities that are financial in nature if Valley elects to become a financial holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking and Branching Act) enables bank holding companies to acquire banks in states other than its home state, regardless of applicable state law. The Interstate Banking and Branching Act also authorizes banks to merge across state lines, thereby creating interstate banks with branches in more than one state. Under the legislation, each state had the opportunity to opt-out of this provision. Furthermore, a state may opt-in with respect to de novo branching, thereby permitting a bank to open new branches in a state in which the Bank does not already have a branch. Without de novo branching, an out-of-state commercial bank can enter the state only by acquiring an existing bank or branch. States generally have not opted out of interstate banking by merger but several states have not authorized de novo branching.

New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks which meet certain conditions may branch de novo into a state, regardless of state law.

Troubled Asset Relief Capital Purchase Program

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Department of the Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the U.S. Treasury announced that the U.S. Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program), from the $700 billion authorized by the EESA, the U.S. Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15 percent of the preferred investment. Participating financial institutions were required to adopt the U.S. Treasury s standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the TARP Capital Purchase Program.

In November 2008, we decided to enter into a Securities Purchase Agreement with the U.S. Treasury that provided for our participation in the TARP Capital Purchase Program. On November 14, 2008, Valley issued and sold to the U.S. Treasury 300,000 shares of Valley Fixed Rate Cumulative Perpetual Preferred Stock, with a liquidation preference of $1 thousand per share, and a ten-year warrant to purchase up to 2.4 million shares of Valley s common stock at an exercise price of $18.66 per share (adjusted for our May 2009 stock dividend).

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Under the terms of the TARP program, the U.S. Treasury s consent was required for any increase in our dividends paid to common stockholders or Valley s redemption, purchase or acquisition of Valley common stock or any trust preferred securities issued by Valley capital trusts until the third anniversary of the Valley senior preferred share issuance to the U.S. Treasury.

In addition, participants in the TARP Capital Purchase Program were required to accept several compensation-related limitations associated with this Program and the subsequent American Recovery and Reinvestment Act of 2009 (the Stimulus Act). The Stimulus Act modified the compensation-related limitations contained in the TARP Capital Purchase Program and created additional compensation-related limitations.

On December 23, 2009, Valley repurchased from the U.S. Treasury the final 100,000 shares of its Fixed Rate Perpetual Preferred Stock, thus ending Valley s participation in the TARP Capital Purchase Program. Valley repurchased the other 200,000 additional shares of preferred stock earlier in 2009. Accordingly, Valley is no longer subject to the prohibitions against increasing dividends and redeeming its common stock and trust preferred securities, and the compensation-related limitations associated with the Capital Purchase Program. At February 26, 2010, the warrant remains outstanding to the U.S. Treasury. We have calculated an internal value for the warrant, and are currently negotiating the redemption with U.S. Treasury. However, if an agreement can not be reached with the U.S. Treasury, the warrant will be sold at public auction. We do not currently have a time frame in which the negotiations will be completed.

Regulation of Bank Subsidiary

Valley National Bank is subject to the supervision of, and to regular examination by, the OCC. Various laws and the regulations thereunder applicable to Valley and its bank subsidiary impose restrictions and requirements in many areas, including capital requirements, the maintenance of reserves, establishment of new offices, the making of loans and investments, consumer protection, employment practices, bank acquisitions and entry into new types of business. There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Dividend Limitations

Valley is a legal entity separate and distinct from its subsidiaries. Valley s revenues (on a parent company only basis) result in substantial part from dividends paid by the Bank. The Bank s dividend payments, without prior regulatory approval, are subject to regulatory limitations. Under the National Bank Act, dividends may be declared only if, after payment thereof, capital would be unimpaired and remaining surplus would equal 100 percent of capital. Moreover, a national bank may declare, in any one year, dividends only in an amount aggregating not more than the sum of its net profits for such year and its retained net profits for the preceding two years. However, declared dividends in excess of net profits in either of the preceding two years can be offset by retained net profits in the third and fourth years preceding the current year when determining the Bank s dividend limitation. In addition, the bank regulatory agencies have the authority to prohibit the Bank from paying dividends or otherwise supplying funds to Valley if the supervising agency determines that such payment would constitute an unsafe or unsound banking practice.

Loans to Related Parties

Valley National Bank s authority to extend credit to its directors, executive officers and 10 percent stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of the National Bank Act, Sarbanes-Oxley Act and Regulation O of the FRB thereunder. Among other things, these

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provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank s capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank s Board of Directors. Under the Sarbanes-Oxley Act, Valley and its subsidiaries, other than the Bank, may not extend or arrange for any personal loans to its directors and executive officers.

Community Reinvestment

Under the Community Reinvestment Act (CRA), as implemented by OCC regulations, a national bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OCC, in connection with its examination of a national bank, to assess the association s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such association. The CRA also requires all institutions to make public disclosure of their CRA ratings. Valley National Bank received a satisfactory CRA rating in its most recent examination.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting.

The Sarbanes-Oxley Act of 2002 provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- independence requirements for company outside auditors;
- certification of financial statements within the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q by the chief executive officer and the chief financial officer;
- the forfeiture by the chief executive officer and the chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by such officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing on Form 4;
- disclosure of a code of ethics for financial officers and filing a Current Report on Form 8-K for a change in or waiver of such code;

the reporting of securities violations up the ladder by both in-house and outside attorneys;

restrictions on the use of non-GAAP financial measures in press releases and SEC filings;

the creation of the Public Company Accounting Oversight Board (PCAOB);

various increased criminal penalties for violations of securities laws;

an assertion by management with respect to the effectiveness of internal control over financial reporting; and

a report by the company s external auditor on the effectiveness of internal control over financial reporting.

Each of the national stock exchanges, including the New York Stock Exchange (NYSE) where Valley common securities are listed and the NASDAQ Capital Market, where certain Valley warrants are listed, have implemented corporate governance listing standards, including rules strengthening director independence requirements for boards, and requiring the adoption of charters for the nominating, corporate governance and audit committees.

USA PATRIOT Act

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the Anti Money Laundering Act). The Anti Money Laundering Act authorizes the Secretary of the U.S. Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Anti Money Laundering Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

Regulations implementing the due diligence requirements, require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of concentration accounts, and requires all covered financial institutions to have in place an anti-money laundering compliance program. The OCC, along with other banking agencies, have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

The Anti Money Laundering Act amended the Bank Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of any financial institution involved in a proposed merger transaction in combating money laundering activities when reviewing an application under these acts.

Regulatory Relief Law

In late 2000, the American Home Ownership and Economic Act of 2000 instituted a number of regulatory relief provisions applicable to national banks, such as permitting national banks to have classified directors and to merge their business subsidiaries into the Bank.

Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (Gramm-Leach-Bliley Act) became effective in early 2000. The Gramm-Leach-Bliley Act provides for the following:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies;

- allows insurers and other financial services companies to acquire banks;

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removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and

establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

If a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals. Valley has not elected to become a financial holding company.

The OCC adopted rules to allow national banks to form subsidiaries to engage in financial activities allowed for financial holding companies. Electing national banks must meet the same management and capital standards as financial holding companies but may not engage in insurance underwriting, real estate development or merchant banking. Sections 23A and 23B of the Federal Reserve Act apply to financial subsidiaries and the capital invested by a bank in its financial subsidiaries will be eliminated from the Bank s capital in measuring all capital ratios. Valley National Bank sold its one wholly owned financial subsidiary, Glen Rauch Securities, Inc, on March 31, 2008.

The Gramm-Leach-Bliley Act modified other financial laws, including laws related to financial privacy and community reinvestment.

Insurance of Deposit Accounts

The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC). The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. Under the FDIC s risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits. Due to losses incurred by the Deposit Insurance Fund in 2008 from failed institutions, and anticipated future losses, the FDIC, pursuant to a restoration plan to replenish the fund, adopted a substantial increase in the assessment rates applicable to insured institutions. The FDIC also has imposed on all insured institutions a special emergency assessment of 5 basis points of total assets less Tier 1 capital as of June 30, 2009 (capped at 10 basis points of the institution s deposit assessment base on the same date) in order to cover losses to the Deposit Insurance Fund. The amount of this special assessment for the Bank was $6.5 million. Additional special assessments may be imposed by the FDIC for future quarters at the same or higher levels. No institution may pay a dividend if in default of the FDIC assessment.

Due to the recent difficult economic conditions, deposit insurance per account owner has been raised to $250 thousand for all types of accounts until January 1, 2014.

The FDIC has authority to further increase insurance assessments. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

On November 12, 2009, the FDIC issued a final rule that required insured depository institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, together with their quarterly risk-based assessment for the third quarter 2009. Valley prepaid approximately $48.5 million, of which approximately $45.5 million was recorded as a prepaid asset, in assessments as of December 31, 2009.

Temporary Liquidity Guarantee Program

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). Under the TLG Program (as amended on March 17, 2009) the FDIC has (i) guaranteed, through the earlier of maturity or December 31, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before October 31, 2009 and (ii) provided full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (NOW) accounts paying less than or equal to 0.5 percent interest per annum and Interest on Lawyers Trust Accounts held at participating FDIC-insured institutions through June 30, 2010. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage ranges from 15 to 25 basis points (based upon the Bank s CAMELS rating by the OCC) on amounts in covered accounts exceeding $250,000. We have elected to participate in both guarantee programs. However, we have not issued debt under the TLG Program.

FIRREA

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. These provisions have commonly been referred to as FIRREA s cross guarantee provisions. Further, under FIRREA, the failure to meet capital guidelines could subject a bank to a variety of enforcement remedies available to federal regulatory authorities.

FIRREA also imposes certain independent appraisal requirements upon a bank s real estate lending activities and further imposes certain loan-to-value restrictions on a bank s real estate lending activities. The Bank regulators have promulgated regulations in these areas.

FDICIA

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be well capitalized. The financial holding company of a national bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

The OCC s regulations implementing these provisions of FDICIA provide that an institution will be classified as well capitalized if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. An institution will be classified as adequately capitalized if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination, and (iv) does not meet the definition of well capitalized. An institution will be classified as undercapitalized if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination. An institution will be classified as significantly undercapitalized if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as critically undercapitalized if it has a tangible equity to total assets

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ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. Valley National Bank s capital ratios were all above the minimum levels required for it to be considered a well capitalized financial institution at December 31, 2008.

In addition, significant provisions of FDICIA required federal banking regulators to impose standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

Financial Regulatory Reform Proposals

Recent economic and market conditions have led to numerous proposals for changes in the regulation of the financial industry in an effort to prevent future crises and reform the financial regulatory system. President Obama s administration has released a comprehensive plan for regulatory reform in the financial industry. The Administration s plan contains significant proposed structural reforms, including heightened powers for the Federal Reserve to regulate risk across the financial agencies, a Consumer Financial Protection Agency and a new National Bank Supervisor. The plan also calls for new substantive regulation across the financial industry, including more heightened scrutiny and regulation for any financial firm whose combination of size, leverage, and interconnectedness could pose a threat to financial stability if it failed. In furtherance of the Administration s plan, legislation enabling the creation of the Consumer Financial Protection Agency has recently been passed by the U.S House of Representatives. The legislation would subject federally chartered financial institutions to state consumer protection laws that have historically been preempted.

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Item 1A. ***Risk Factors***

An investment in our securities is subject to risks inherent to our business. The material risks and uncertainties that management believes affect Valley are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing Valley. Additional risks and uncertainties that management is not aware of or that management currently believes are immaterial may also impair Valley s business operations. The value or market price of our securities could decline due to any of these identified or other risks, and you could lose all or part of your investment. This report is qualified in its entirety by these risk factors.

A Prolonged Negative Impact of Economic Downturn.

The global and U.S. economic downturn has resulted in uncertainty in the financial markets in general with the possibility of a slow recovery or a fall back into recession. The Federal Reserve, in an attempt to help the overall economy, has kept interest rates low through its targeted federal funds rate and the purchase of mortgage- backed securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise which may negatively impact the housing markets and the U.S. economic recovery. A prolonged economic downturn or the return of negative developments in the financial services industry could negatively impact our operations by causing an increase in our provision for loan losses and a deterioration of our loan portfolio. Such a downturn may also adversely affect our ability to originate or sell loans. The occurrence of any of these events could have an adverse impact our financial performance.

Allowance For Loan Losses May Be Insufficient.

We maintain an allowance for loan losses based on, among other things, national and regional economic conditions, historical loss experience, and our assumptions regarding delinquency trends and future loss expectations. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Bank regulators review the classification of our loans in their examination of us and we may be required in the future to change the classification on certain of our loans, which may require us to increase our provision for loan losses or loan charge-offs. Valley s management could also decide that the allowance for loan losses should be increased. If actual net charge-offs were to exceed Valley s allowance, its earnings would be negatively impacted by additional provisions for loan losses. Any increase in our allowance for loan losses or loan charge-offs as required by the OCC or otherwise could have an adverse effect on our results of operations or financial condition.

Further Increases in Our Non-performing Assets May Occur and Adversely Affect Our Results of Operations and Financial Condition.

As a result of the economic downturn, particularly during 2009, we are facing increased delinquencies on our loans. Our non-performing assets (which consist of non-accrual loans, other real estate owned and other repossessed assets) increased from 0.45 percent of loans and non-performing assets at December 31, 2008 to 1.04 percent of loans and non-performing assets at December 31, 2009.

Until economic and market conditions improve, we expect to continue to incur charge-offs to our allowance for loan losses and lost interest income relating to an increase in non-performing loans. Our non-performing assets adversely affect our net income in various ways. Adverse changes in the value of our non-performing assets, or the underlying collateral, or in the borrowers performance or financial conditions could adversely affect our business, results of operations and financial condition. There can be no assurance that we will not experience further increases in non-performing loans in the future, or that our non-performing assets will not result in lower financial returns in the future.

Changes in Interest Rates Can Have an Adverse Effect on Profitability.

Valley s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond Valley s control, including general economic conditions, competition, and policies of various governmental and regulatory agencies and, in particular, the policies of the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest Valley receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Valley s ability to originate loans and obtain deposits, (ii) the fair value of Valley s financial assets and liabilities, including the held to maturity, available for sale, and trading securities portfolios, and (iii) the average duration of Valley s interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk).

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on Valley s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on Valley s financial condition and results of operations.

A Prolonged or Worsened Downturn Affecting the Economy and/or the Real Estate Market in Our Primary Market Area Would Adversely Affect Our Loan Portfolio and Our Growth Potential.

Much of Valley s lending is in northern and central New Jersey, and Manhattan, Brooklyn and Queens, New York. As a result of this geographic concentration, a further significant broad-based deterioration in economic conditions in New Jersey and the New York City metropolitan area could have a material adverse impact on the quality of Valley s loan portfolio, results of operations and future growth potential. A prolonged decline in economic conditions in our market area could restrict borrowers ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows and results of operation of Valley s business.

Valley s loan portfolio is largely secured by real estate collateral. A substantial portion of the real and personal property securing the loans in Valley s portfolio is located in New Jersey and the New York City metropolitan area. Conditions in the real estate markets in which the collateral for Valley s loans are located strongly influence the level of Valley s non-performing loans and results of operations. A continued decline in the New Jersey and New York City metropolitan area real estate markets could adversely affect Valley s loan portfolio.

Declines in Value May Adversely Impact the Investment Portfolio.

As of December 31, 2009, we had approximately $1.6 billion and $1.4 billion in held to maturity and available for sale investment securities, respectively. We may be required to record impairment charges in earnings related to credit losses on our investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, (a) if we intend to sell a security or (b) it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we will be required to recognize an other-than-temporary impairment charge in the statement of income equal to the full amount of the decline in fair value below amortized cost. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods.

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Among other securities, our investment portfolio includes private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (bank issuers) (including three pooled securities), perpetual preferred securities issued by banks, and bank issued corporate bonds. These investments pose a risk of future impairment charges by us as a result of the current downturn in the U.S. economy and its negative effect on the performance of these bank issuers and/or the underlying mortgage loan collateral. In addition, some of the bank issuers of trust preferred securities within our investment portfolio are participants in the U.S. Treasury s TARP Capital Purchase Program. For TARP participants, dividend payments to trust preferred security holders are currently senior to and payable before dividends can be paid on the preferred stock issued under the TARP Capital Purchase Program. Some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon recommendations by banking regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within our investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management.

If an impairment charge is significant enough it could affect the ability of the Bank to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios and result in the Bank not being classified as well-capitalized for regulatory purposes.

Currently, we own $55.0 million in trust preferred securities (with unrealized losses totaling $33.6 million at December 31, 2009) of one issuer who has elected to defer interest payments based upon the conditions of an agreement with its bank regulator. At this time, we are uncertain whether in future periods we will be required to take impairment charges with regard to these securities.

An Increased Valuation of Our Junior Subordinated Debentures Issued to VNB Capital Trust I May Adversely Impact Our Net Income and Earnings Per Share.

Effective January 1, 2007, we elected to carry the junior subordinated debentures issued to VNB Capital Trust I at fair value. We measure the fair value of these junior subordinated debentures using exchange quoted prices in active markets for similar assets (Level 1 inputs as defined in the Financial Accounting Standards Board s (the FASB) Accounting Standard Update No. 2009-05 under Accounting Standards Codification (ASC) Topic 820, which we elected to early adopt on September 30, 2009), specifically the trust preferred securities issued by VNB Capital Trust I, which contain identical terms as our junior subordinated debentures (see Note 12 to the consolidated financial statements). As a result, any increase in the market quoted price, or fair market value, of our trust preferred securities will result in a commensurate increase in the liability required to be recorded for the junior subordinated debentures with an offsetting non-cash charge against our earnings. During 2009, we recognized a $15.8 million ($10.3 million after taxes) non-cash charge due to the change in the fair value of the junior subordinated debentures caused by an increase in the market price of the trust preferred securities. The non-cash charge against our earnings does not impact our liquidity or our regulatory capital. We cannot predict whether or to what extent we would be required to take a non-cash charge against earnings related to the change in fair value of our junior subordinated debentures in future periods. Furthermore, changes in the law and regulations or other factors could require us to redeem the junior subordinated debentures at par value. If we are carrying the junior subordinated debentures at a fair value below par value when such redemption occurs, we will be required to record a charge against earnings in the period in which the redemption occurred.

Higher FDIC Deposit Insurance Premiums and Assessments Could Adversely Affect Our Financial Condition.

FDIC insurance premiums have increased substantially in 2009 and we may have to pay significantly higher FDIC premiums in the future and prepay insurance premiums. Market developments during 2009 significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. The FDIC adopted a revised risk-based deposit insurance assessment schedule during the first quarter of 2009, which raised regular deposit insurance premiums. In May 2009, the FDIC also implemented a five basis point special assessment of each insured depository institution s total assets minus Tier 1 capital as of June 30, 2009, but no more than 10 basis points times the institution s assessment base for the second quarter of 2009, collected by the FDIC on September 30, 2009. The amount of this special assessment for the Bank was $6.5 million. In December 2009 the FDIC required us to prepay our assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, together with their quarterly risk-based assessment for the third quarter 2009. Notwithstanding this prepayment, the FDIC may impose additional special assessments for future quarters or may increase the FDIC standard assessments. We cannot provide you with any assurances that we will not be required to pay additional FDIC insurance assessments, which could have an adverse effect on our results of operations.

We May be Adversely Affected by the Soundness of Other Financial Institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including the Federal Home Loan Bank of New York, commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Liquidity Risk.

Liquidity risk is the potential that Valley will be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a prolonged economic downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not necessarily specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Our Deposit Base May Be Adversely Affected by the Loss of Lower-Cost Funding Sources.

Checking and savings, NOW, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market or money market or fixed income mutual funds, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, Valley could lose a relatively low cost source of funds, increasing its funding costs and reducing Valley s net interest income and net income.

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We Are a Holding Company and Depend on Our Subsidiaries for Dividends, Distributions and Other Payments.

We are a separate and distinct legal entity from our banking and non-banking subsidiaries and depend on dividends, distributions, and other payments from the Bank and its non-banking subsidiaries to fund cash dividend payments on our common stock and to fund most payments on our other obligations. Regulations relating to capital requirements affect the ability of the Bank to pay dividends and other distributions to us and to make loans to us. Additionally, if our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common shareholders or interest payments on our junior subordinated debentures issued to capital trusts. Furthermore, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

We May Reduce or Eliminate the Cash Dividend on Our Common Stock.

Our common cash dividend pay-out per common share was greater than our earnings per share for the year ended December 31, 2009, thereby causing our earnings retention to be zero for the same period. Our zero retention rate resulted from earnings being negatively impacted by dividends on our senior preferred stock and the accretion of the discount on our senior preferred stock (fully repurchased during 2009), as well as net trading losses caused primarily by to mark-to-market losses on the fair value of our junior subordinated debentures and net impairment losses on private label mortgage-backed securities. The retention ratio for the comparable year ended December 31, 2008 was also negative primarily due to other-than-temporary charges and realized losses on Fannie Mae and Freddie Mac preferred securities classified as available for sale. While our earnings retention rate may improve in the future due to the elimination of dividends and accretion due to our redemption of the senior preferred stock, other factors, including those resulting from the economic recession, may negatively impact our future earnings and ability to maintain our dividend at current levels.

At this time, and subsequent to our first quarter of 2010 cash dividend payment, we have approximately $100 million in liquid assets, consisting of cash, investments and accrued interest receivable, at the holding company level available to pay dividends, which could provide for quarterly dividends up to three consecutive quarters at the current dividend rate per share based upon the number of our common shares outstanding at February 23, 2010 and projected operating expenses for 2010.

Holders of our common stock are only entitled to receive such cash dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock cash dividend in the future. This could adversely affect the market price of our common stock. Also, as a bank holding company, our ability to declare and pay dividends is dependent on federal regulatory considerations including the guidelines of OCC and the FRB regarding capital adequacy and dividends.

Competition in the Financial Services Industry.

Valley faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than Valley. Valley competes with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, title agencies, asset managers, insurance companies and a large list of other local, regional and national institutions which offer financial services. Mergers between financial institutions within New Jersey and in neighboring states have added competitive pressure. If Valley is unable to compete effectively, it will lose market share and its income generated from loans, deposits, and other financial products will decline.

Future Offerings of Common Stock, Debt or Other Securities May Adversely Affect the Market Price of Our Stock.

In the future, we may increase our capital resources or, if our or the Bank s capital ratios fall below the prevailing regulatory required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of common stock, preferred stock, trust preferred securities and debt securities. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Potential Acquisitions May Disrupt Valley s Business and Dilute Shareholder Value.

Valley regularly evaluates merger and acquisition opportunities, including FDIC assisted transactions, and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Valley s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on Valley s financial condition and results of operations.

Implementation of Growth Strategies.

Valley has a strategic branch expansion initiative to expand its physical presence in Brooklyn and Queens, as well as add locations within its New Jersey and Manhattan markets. We may also expand our branch network into markets outside of these areas based upon changes in management strategy and/or bank acquisition opportunities that may become available in the future. Valley has opened a combined total of 12 branch locations within Brooklyn and Queens since starting its initiative in these new markets during 2007. Valley s ability to successfully execute in these markets depends upon a variety of factors, including its ability to attract and retain experienced personnel, the continued availability of desirable business opportunities and locations, the competitive responses from other financial institutions in the new market areas, and the ability to manage growth. These initiatives could cause Valley s expenses to increase faster than revenues. Valley can provide no assurances that it will successfully implement or continue these initiatives.

There are considerable initial and on-going costs involved in opening branches, growing loans in new markets, and attracting new deposit relationships. These expenses could negatively impact future earnings. For example, it takes time for new branches and relationships to achieve profitability. Expenses could be further increased if there are delays in the opening of new branches or if attraction strategies are more costly than expected. Delays in opening new branches can be caused by a number of factors such as the inability to find suitable locations, zoning and construction delays, and the inability to attract qualified personnel to staff the new branch. In addition, there is no assurance that a new branch will be successful even after it has been established.

From time to time, Valley may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. Valley may invest significant time and resources to develop and market new lines of business and/or products and services. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting customer preferences, may also impact the successful implementation of a new line of business or a new product or service. Additionally, any new line of business and/or new product or service could have a significant impact on the effectiveness of Valley s system of internal controls. Failure to successfully manage these risks could have a material adverse effect on Valley s business, results of operations and financial condition.

Extensive Regulation and Supervision.

Valley, primarily through its principal subsidiary and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole. Such laws are not designed to protect Valley shareholders. These regulations affect Valley s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Valley is also subject to a number of federal laws, which, among other things, require it to lend to various sectors of the economy and population, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect Valley in substantial and unpredictable ways. Such changes could subject Valley to additional costs, limit the types of financial services and products it may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on Valley s business, financial condition and results of operations. Valley s compliance with certain of these laws will be considered by banking regulators when reviewing bank merger and bank holding company acquisitions.

Market Reform Efforts May Result in Our Businesses Becoming Subject to Extensive and Pervasive Additional Regulations.

Recent economic and market conditions have led to numerous proposals for changes in the regulation of the financial industry in an effort to prevent future crises and reform the financial regulatory system. President Obama s administration has released a comprehensive plan for regulatory reform in the financial industry. The Administration s plan contains significant proposed structural reforms, including heightened powers for the Federal Reserve to regulate risk across the financial system; a new Financial Services Oversight Council chaired by the U.S. Treasury; and two new federal agencies, a Consumer Financial Protection Agency and a new National Bank Supervisor. The plan also calls for new substantive regulation across the financial industry, including more heightened scrutiny and regulation for any financial firm whose combination of size, leverage, and interconnectedness could pose a threat to financial stability if it failed.

There can be no assurance as to whether or when any of the parts of the Administration s plan or other proposals will be enacted into legislation, and if adopted, what the final provisions of such legislation will be. The financial services industry is highly regulated, and we are subject to regulation by several government agencies, including the OCC, the FRB and the FDIC. Legislative and regulatory changes, as well as changes in governmental economic and monetary policy, not only can affect our ability to attract deposits and make loans, but can also affect the demand for business and personal lending and for real estate mortgages. Government regulations affect virtually all areas of our operations, including our range of permissible activities, products and services, the amount of service fees or the ability to assess such fees, the geographic locations in which our services can be offered, the amount of capital required to be maintained to support operations, the right to pay dividends and the amount which we can pay to obtain deposits. New legislation and regulatory changes could require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our business, results of operations or financial condition.

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Changes in Accounting Policies or Accounting Standards.

Valley s accounting policies are fundamental to understanding its financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of Valley s assets or liabilities and financial results. Valley identified its accounting policies regarding the allowance for loan losses, security valuations, goodwill and other intangible assets, and income taxes to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time the FASB and the SEC change their guidance governing the form and content of Valley s external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles (GAAP), such as the FASB, SEC, banking regulators and Valley s outside auditors, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue, and may accelerate as the FASB and International Accounting Standards Board have reaffirmed their commitment to achieving convergence between U.S. GAAP and International Financial Reporting Standards. Changes in U.S. GAAP and changes in current interpretations are beyond Valley s control, can be hard to predict and could materially impact how Valley reports its financial results and condition. In certain cases, Valley could be required to apply a new or revised guidance retroactively or apply existing guidance differently (also retroactively) which may result in Valley restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that will negatively impact our results of operations.

The Price of Our Common Stock May Fluctuate.

The price of our common stock on the NYSE constantly changes and recently, given the uncertainty in the financial markets, has fluctuated widely. The market price of our common stock may continue to fluctuate. Holders of our common stock will be subject to the risk of volatility and changes in prices.

Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- events negatively impacting the financial services industry which result in a general decline in the market valuation of our common stock;
- announcements of material developments affecting our operations or our dividend policy;
- future sales of our equity securities;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles; and

general domestic economic and market conditions.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

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Encountering Continuous Technological Change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Valley s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in Valley s operations. Many of Valley s competitors have substantially greater resources to invest in technological improvements. Valley may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on Valley s business and, in turn, Valley s financial condition and results of operations.

Operational Risk.

We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as us) and to the risk that our (or our vendors) business continuity and data security systems prove to be inadequate. We maintain a system of comprehensive policies and a control framework designed to monitor vendor risks including, among other things, (i) changes in the vendor s organizational structure or internal controls, (ii) changes in the vendor s financial condition, (iii) changes in the vendor s support for existing products and services and (iv) changes in the vendor s strategic focus. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we are unable to attract new employees and retain and motivate our existing employees.

Severe Weather, Acts of Terrorism and Other External Events Could Significantly Impact Our Business.

A significant portion of our primary markets are located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Additionally, New York City and New Jersey remain central targets for potential acts of terrorism against the United States. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We Are Subject to Environmental Liability Risk Associated With Lending Activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review prior to originating certain commercial real estate loans, as well as before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Claims and Litigation Pertaining to Fiduciary Responsibility.

From time to time as part of Valley s normal course of business, customers make claims and take legal action against Valley based on actions or inactions of Valley. If such claims and legal actions are not resolved in a manner favorable to Valley, they may result in financial liability and/or adversely affect the market perception of Valley and its products and services. This may also impact customer demand for Valley s products and services. Any financial liability or reputation damage could have a material adverse effect on Valley s business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

We conduct our business at 197 retail banking center locations, with 171 in northern and central New Jersey and 26 in the New York City metropolitan area. We own 93 of our banking center facilities. The other facilities are leased for various terms. Additionally, we have 7 other properties located in New Jersey and New York City that were either owned or under contract to purchase or lease. We intend to develop these properties into new retail branch locations during 2010 and 2011.

Our principal business office is located at 1455 Valley Road, Wayne, New Jersey. Including our principal business office, we own four office buildings in Wayne, New Jersey and one building in Chestnut Ridge, New York which are used for various operations of Valley National Bank and its subsidiaries.

The total net book value of our premises and equipment (including land, buildings, leasehold improvements and furniture and equipment) was $266.4 million at December 31, 2009. We believe that all of our properties and equipment are well maintained, in good condition and adequate for all of our present and anticipated needs.

Item 3. ***Legal Proceedings***

In the normal course of business, we may be a party to various outstanding legal proceedings and claims. In the opinion of management, our consolidated statements of financial condition or results of operations should not be materially affected by the outcome of such legal proceedings and claims.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the NYSE under the ticker symbol VLY . The following table sets forth for each quarter period indicated the high and low sales prices for our common stock, as reported by the NYSE, and the cash dividends declared per common share for each quarter. The amounts shown in the table below have been adjusted for all stock dividends and stock splits.

	Year 2009			Year 2008		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 19.29	$ 8.04	$ 0.19	$ 18.76	$ 15.02	$ 0.19
Second Quarter	15.47	10.81	0.19	18.64	14.84	0.19
Third Quarter	13.89	10.87	0.19	23.57	12.98	0.19
Fourth Quarter	14.33	11.61	0.19	22.76	13.33	0.19

There were 8,915 shareholders of record as of December 31, 2009.

Restrictions on Dividends

The timing and amount of cash dividends paid depend on our earnings, capital requirements, financial condition and other relevant factors. The primary source for dividends paid to our common stockholders is dividends paid to us from Valley National Bank. Federal laws and regulations contain restrictions on the ability of national banks, like Valley National Bank, to pay dividends. For more information regarding the restrictions on the Bank s dividends, see Item 1. Business Supervision and Regulation Dividend Limitations and Item 1A. Risk Factors We May Reduce or Eliminate the Cash Dividend on Our Common Stock above, and Note 16 to the consolidated financial statements contained in Item 8 of this report. In addition, under the terms of the trust preferred securities issued by VNB Capital Trust I and GCB Capital Trust III, we cannot pay dividends on our common stock if we defer payments on the junior subordinated debentures which provide the cash flow for the payments on the trust preferred securities.

In November 2008, we issued 300,000 shares of senior preferred stock to the U.S. Treasury under the TARP Capital Purchase Program. We incrementally repurchased the 300,000 from the U.S. Treasury during 2009 and effectively ended our participation in the TARP Capital Purchase Program on December 23, 2009. While the shares were outstanding to the U.S. Treasury, with limited exceptions, the U.S. Treasury s consent was required for: (i) any increase in dividends paid on our common stock above a quarterly dividend of $0.19 per common share, (ii) the repurchase of our common stock in any way, or (iii) the repurchase or redemption of any trust preferred securities issued by us.

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Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2004 in: (a) Valley s common stock; (b) the Standard and Poor s (S&P) 500 Stock Index; and (c) the Keefe, Bruyette & Woods KBW50 Bank Index. The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time based on dividends (stock or cash) and increases or decreases in the market price of the stock.

Issuer Repurchase of Equity Securities

There were no purchases of equity securities by the issuer or affiliated purchasers during the three months ended December 31, 2009.

Equity Compensation Plan Information

The information set forth in Item 12 of Part III of this Annual Report under the heading Equity Compensation Plan Information is incorporated by reference herein.

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Item 6. ***Selected Financial Data***

The following selected financial data should be read in conjunction with Valley s consolidated financial statements and the accompanying notes thereto presented herein in response to Item 8.

	2009	2008	2007	2006	2005
	As of or for the Years Ended December 31, (in thousands, except for share data)				
Summary of Operations:					
Interest income tax equivalent basis (1)	$ 717,411	$ 735,153	$ 731,188	$ 713,930	$ 631,893
Interest expense	262,870	308,895	343,322	316,250	226,659
Net interest income tax equivalent basis (1)	454,541	426,258	387,866	397,680	405,234
Less: tax equivalent adjustment	5,227	5,459	6,181	6,559	6,809
Net interest income	449,314	420,799	381,685	391,121	398,425
Provision for credit losses	47,992	28,282	11,875	9,270	4,340
Net interest income after provisions for credit losses	401,322	392,517	369,810	381,851	394,085
Non-interest income:					
Net impairment losses on securities recognized in earnings	(6,352)	(84,835)	(17,949)	(4,722)	(835)
Gains on sale of assets, net	605	518	16,051	3,849	25
Other non-interest income	77,998	87,573	90,926	72,937	74,543
Total non-interest income	72,251	3,256	89,028	72,064	73,733
Non-interest expense:					
Goodwill impairment			2,310		
FDIC insurance assessment	20,128	1,985	1,003	1,085	1,135
Other non-interest expense	285,900	283,263	250,599	249,255	236,456
Total non-interest expense	306,028	285,248	253,912	250,340	237,591
Income before income taxes	167,545	110,525	204,926	203,575	230,227
Income tax expense	51,484	16,934	51,698	39,884	66,778
Net income	116,061	93,591	153,228	163,691	163,449
Dividends on preferred stock and accretion	19,524	2,090			
Net income available to common stockholders	$ 96,537	$ 91,501	$ 153,228	$ 163,691	$ 163,449
Per Common Share (2):					
Earnings per share:					
Basic	$ 0.67	$ 0.67	$ 1.16	$ 1.21	$ 1.23
Diluted	0.67	0.67	1.15	1.21	1.23
Dividends declared	0.76	0.76	0.76	0.74	0.72
Book value	8.19	7.56	7.18	7.11	6.89
Tangible book value (3)	6.09	5.30	5.63	5.53	5.28
Weighted average shares outstanding:					
Basic	144,453,039	136,957,646	132,586,561	134,912,276	132,428,163
Diluted	144,453,723	137,033,031	132,979,202	135,462,682	132,917,645
Ratios:					
Return on average assets	0.81%	0.69%	1.25%	1.33%	1.39%
Return on average shareholders equity	8.64	8.74	16.43	17.24	19.17
Return on average tangible shareholders equity (4)	11.34	11.57	21.17	22.26	23.61
Average shareholders equity to average assets	9.40	7.94	7.58	7.72	7.25
Dividend payout	113.43	114.29	65.35	60.71	58.00
Risked-based capital:					

Tier 1 capital	10.64%	11.44%	9.55%	10.56%	10.28%
Total capital	12.54	13.18	11.35	12.44	12.16
Leverage capital	8.14	9.10	7.62	8.10	7.82
Financial Condition:					
Assets	$ 14,284,153	$ 14,718,129	$ 12,748,959	$ 12,395,027	$ 12,436,102
Net loans	9,268,081	10,050,446	8,423,557	8,256,967	8,055,269
Deposits	9,547,285	9,232,923	8,091,004	8,487,651	8,570,001
Shareholders equity	1,252,854	1,363,609	949,060	949,590	931,910

See Notes to the Selected Financial Data that follows.

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Notes to Selected Financial Data

(1) In this report a number of amounts related to net interest income and net interest margin are presented on a tax equivalent basis using a 35 percent federal tax rate. Valley believes that this presentation provides comparability of net interest income and net interest margin arising from both taxable and tax-exempt sources and is consistent with industry practice and SEC rules.

(2) All per common share amounts reflect a five percent common stock dividend issued May 22, 2009, and all prior stock splits and dividends.

(3) This Annual Report on Form 10-K contains supplemental financial information which has been determined by methods other than U.S. GAAP that management uses in its analysis of our performance. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance, our business and performance trends, and facilitates comparisons with the performance of others in the financial services industry. These non-GAAP financial measures should not be considered in isolation or as a substitute for or superior to financial measures calculated in accordance with U.S. GAAP.

Tangible book value per common share, which is a non-GAAP measure, is computed by dividing shareholders equity less goodwill and other intangible assets by common shares outstanding as follows:

	At Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(in thousands, except for share data)				
Common shares outstanding	152,987,903	141,775,232	132,136,278	133,540,457	135,318,321
Shareholders equity	$ 1,252,854	$ 1,363,609	$ 949,060	$ 949,590	$ 931,910
Less: Preferred stock		291,539			
Less: Goodwill and other intangible assets	320,729	321,100	204,547	211,355	217,354
Tangible shareholders equity	$ 932,125	$ 750,970	$ 744,513	$ 738,235	$ 714,556
Tangible book value per common share	$ 6.09	$ 5.30	$ 5.63	$ 5.53	$ 5.28

(4) Return on average tangible shareholders equity, which is a non-GAAP measure, is computed by dividing net income by average shareholders equity less average goodwill and average other intangible assets, as follows:

	At Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	($ in thousands)				
Net income	$ 116,061	$ 93,591	$ 153,228	$ 163,691	$ 163,449
Average shareholders equity	1,342,790	1,071,358	932,637	949,613	852,834
Less: Average goodwill and other intangible assets	319,756	262,613	208,797	214,338	160,607
Average tangible shareholders equity	$ 1,023,034	$ 808,745	$ 723,840	$ 735,275	$ 692,227
Return on average tangible shareholders equity	11.34%	11.57%	21.17%	22.26%	23.61%

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Item 7. ***Management s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations***

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing Valley s results of operations for each of the past three years and financial condition for each of the past two years. In order to fully appreciate this analysis the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing under Item 8 of this report, and statistical data presented in this document.

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management s confidence and strategies and management s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as expect, anticipate, look, view, opportunities, allow, continues, reflects, believe, may, should, will, estimates or similar statement terms. Such forward-looking statements involve certain risks and uncertainties. Actual results may differ materially from such forward-looking statements. Valley assumes no obligation for updating any such forward-looking statement at any time. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to the factors listed under the Risk Factor section of this Annual Report on Form 10-K and:

- unanticipated changes in interest rates;
- increased or unexpected competition from banks, other financial institutions and other companies;
- changes in loan, investment and mortgage prepayment assumptions;
- insufficient allowance for credit losses;
- a higher level of net loan charge-offs, nonperforming assets, and delinquencies than anticipated;
- a continued or unexpected decline in the economy in our primary market areas, mainly in New Jersey and New York;
- a continued or unexpected decline in real estate values within our market areas;
- the occurrence of an other-than-temporary impairment to investment securities classified as available for sale or held to maturity;
- volatility in earnings due to certain financial assets and liabilities held at fair value;
- higher than expected FDIC insurance premiums;
- the failure of other financial institutions with whom we have trading, clearing, counterparty and other financial relationships;

a reduction in dividend payments, distributions and other payments from our banking subsidiary;

possible reduction or elimination of the dividend on our common stock;

changes in relationships with major customers;

further offerings of our equity securities may result in dilution of our common stock and a reduction in the price of our common stock;

potential acquisitions may disrupt our business and dilute shareholder value;

additional regulatory oversight which may require us to change our business model;

- our failure or inability to raise additional capital, if it is necessary or advisable to do so;
- changes in income tax rates;
- higher or lower cash flow levels than anticipated;
- inability to hire or retain qualified employees;
- a decline in the levels of deposits or loss of alternate funding sources;
- a decrease in loan origination volume;
- a change in legal and regulatory barriers including issues related to compliance with anti-money laundering and bank secrecy act laws;
- adoption, interpretation and implementation of new or pre-existing accounting pronouncements;
- the development of new tax strategies or the disallowance of prior tax strategies;
- operational risks, including the risk of fraud by employees or outsiders and unanticipated litigation pertaining to Valley s fiduciary responsibility; and
- the inability to successfully implement new lines of business or new products and services.

Any public statements or disclosures by Valley following this report that modify or impact any of the forward-looking statements contained in or accompanying this report will be deemed to modify or supercede such forward-looking statements in or accompanying this report.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform, in all material respects, to U.S. GAAP. In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of condition and results of operations for the periods indicated. Actual results could differ significantly from those estimates.

Valley s accounting policies are fundamental to understanding management s discussion and analysis of its financial condition and results of operations. Our significant accounting policies are presented in Note 1 to the consolidated financial statements. We identified our policies on the allowance for loan losses, security valuations, goodwill and other intangible assets, and income taxes to be critical as management is required to make subjective and/or complex judgments about matters that are inherently uncertain and could be most subject to revision as new information becomes available. Management has reviewed the application of these policies with the Audit and Risk Committee of Valley s Board of Directors.

The judgments used by management in applying the critical accounting policies discussed below may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. Specifically, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect on outstanding loans could result in increased loan losses. In addition, the valuation of certain securities in our investment portfolio could be negatively impacted by illiquidity or dislocation in marketplaces resulting in significantly depressed market prices thus leading to further impairment losses.

Allowance for Loan Losses. The allowance for loan losses represents management s estimate of probable loan losses inherent in the loan portfolio and is the largest component of the allowance for credit losses which also includes management s estimated reserve for unfunded commercial letters of credit. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Various banking regulators, as an integral part of their examination process, also review the allowance for loan losses. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the allowance for loan losses when their credit evaluations differ from those of management. Additionally, the allowance for loan losses is determined, in part, by the composition and size of the loan portfolio which represents the largest asset type on the consolidated statement of financial condition.

The allowance for loan losses consists of four elements: (1) specific reserves for individually impaired credits, (2) reserves for classified, or higher risk rated, loans, (3) reserves for non-classified loans based on historical loss factors, and (4) reserves based on general economic conditions and other qualitative risk factors both internal and external to Valley, including changes in loan portfolio volume, the composition and concentrations of credit, new market initiatives, and the impact of competition on loan structuring and pricing. Note 1 of the consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in this MD&A.

Valley considers it difficult to quantify the impact of changes in forecast on its allowance for loan losses. However, management believes the following discussion may enable investors to better understand the variables that drive the allowance for loan losses.

For impaired credits, if the fair value of the loans were ten percent higher or lower, the allowance would have increased or decreased by approximately $6.7 million, respectively, at December 31, 2009.

If classified loan balances were ten percent higher or lower, the allowance would have increased or decreased by approximately $2.8 million, respectively, at December 31, 2009.

The credit rating assigned to each non-classified credit is a significant variable in determining the allowance. If each non-classified credit were rated one grade worse, the allowance would have increased by $7.7 million, while if each non-classified credit were rated one grade better there would be no change in the level of the allowance as of December 31, 2009. Additionally, if the historical loss factors used to calculate the reserve for non-classified loans were ten percent higher or lower, the allowance would have increased or decreased by $6.0 million, respectively, at December 31, 2009.

A key variable in determining the allowance is management s judgment in determining the size of the reserves based on general economic conditions and other qualitative risk factors. At December 31, 2009, these reserves were 6.1 percent of the total allowance. If the reserves were ten percent higher or lower, the allowance would have increased or decreased by $633 thousand, respectively, at December 31, 2009.

Security Valuations and Impairments. Management utilizes various inputs to determine the fair value of its investment portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and illiquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (level 3). Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. A significant degree of judgment is involved in valuing investments using level 3 inputs. The use of different assumptions could have a positive or negative effect on consolidated financial condition or results of operations. See Note 3 for more details on our security valuation techniques.

Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment s book value is greater than fair value, the severity of the investment s decline, any credit deterioration of the investment, whether management intends to sell the security, and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. As a result of our adoption of new authoritative guidance under ASC Topic 320, *Investments Debt and Equity Securities* on January 1, 2009, debt investment securities deemed to be other-than-temporarily impaired are written down by the impairment related to the estimated credit loss and the non-credit related impairment is recognized in other comprehensive income. Prior to the adoption of the new authoritative guidance and unchanged for equity securities, if the decline in value of an investment was deemed to be other-than-temporary, the investment was written down to fair value and a non-cash impairment charge was recognized in the period of such evaluation. We recognized other-than-temporary impairment charges on securities of $6.4 million, $84.8 million, and $17.9 million in 2009, 2008, and 2007, respectively, within the net impairment losses on securities recognized in earnings category of total non-interest income on the consolidated statements of income. For 2009, the other-than-temporary impairment charges relate mainly to estimated credit losses on private label mortgage-backed securities while the other-than-temporary impairment charges recognized in 2008 and 2007 primarily relate to perpetual preferred securities issued by Fannie Mae and Freddie Mac. See the Investment Securities section below and Note 4 to the consolidated financial statements for additional analysis of our other-than-temporary charges.

Goodwill and Other Intangible Assets. We record all assets, liabilities, and non-controlling interests in the acquiree in purchase acquisitions, including goodwill and other intangible assets, at fair value as of the acquisition date, and expense all acquisition related costs as incurred as required by ASC Topic 805, Business Combination. Goodwill totaling $296.4 million at December 31, 2009 is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets.

The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Other intangible assets totaling $24.3 million at December 31, 2009 are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections.

Fair value may be determined using: market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other determinants. Estimated cash flows may extend far into the future and, by their nature, are difficult to determine over an extended timeframe. Factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates, terminal values, and specific industry or market sector conditions.

Other key judgments in accounting for intangibles include useful life and classification between goodwill and other intangible assets which require amortization. See Note 9 to consolidated financial statements for additional information regarding goodwill and other intangible assets.

To assist in assessing the impact of potential goodwill or other intangible asset impairment charges at December 31, 2009, the impact of a five percent impairment charge would result in a reduction in pre-tax income of approximately $16.0 million. During the fourth quarter of 2007, Valley recognized a $2.3 million goodwill impairment charge due to its decision to sell its broker-dealer subsidiary (See discussion at Note 9). No impairment was recognized on goodwill or other intangible assets during the years ended December 31, 2009 and 2008.

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact our consolidated financial condition or results of operations.

In connection with determining our income tax provision, we maintain a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. Periodically, we evaluate each of our tax positions and strategies to determine whether the reserve continues to be appropriate. Notes 1 and 14 to the consolidated financial statements and the Income Taxes section below include additional discussion on the accounting for income taxes.

New Authoritative Accounting Guidance. On July 1, 2009, the ASC became the FASB s officially recognized source of authoritative U.S. GAAP applicable to all public and non-public non-governmental entities, superseding all existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All other accounting literature is considered non-authoritative. The issuance of the ASC affects the way companies refer to U.S. GAAP in financial statements and other disclosures. See Note 1 of the consolidated financial statements for a description of recent accounting pronouncements including the dates of adoption and the effect on the results of operations and financial condition.

Executive Summary

Net income for the year ended December 31, 2009 was $116.1 million compared to $93.6 million for the year ended December 31, 2008. The increase was largely due to (i) a $28.5 million increase in net interest income resulting from higher average interest earning assets and a decline in our cost of funds, (ii) a $78.5 million decrease in net impairment losses on securities mainly due to other-than-temporary impairment charges in 2008 relating to Fannie Mae and Freddie Mac perpetual preferred securities resulting from the government s decision to place these issuers into conservatorship, and (iii) a $7.7 million increase in net gains on sales of loans, partially offset by (iv) a $19.7 million increase in the provision for credit losses due to higher net charge-offs and non-performing loans caused by deterioration in economic conditions, (v) a $18.1 million increase in the FDIC insurance assessment due to a $6.5 million one-time special assessment in the second quarter of 2009, depletion of our prior period credit, higher normal assessment rates in 2009 and our election to participate in the FDIC s Temporary Liquidity Guarantee Program in the fourth quarter of 2008, (vi) a $13.6 million increase in net trading losses mainly due to non-cash mark to market losses on our junior subordinated debentures carried at fair value during 2009, and (vii) higher federal and state income tax expense. Diluted earnings per common share was $0.67 for the year ended December 31, 2009, unchanged as compared to the same period of 2008. However, accrued preferred stock dividends and accretion of the discount on our senior preferred stock reduced net income available to common stockholders and diluted earnings per common share by $19.5 million ($0.14 per common share) and $2.1 million ($0.02 per common share) for the years ended December 31, 2009 and 2008, respectively. All common share data is adjusted to reflect a five percent common stock dividend issued on May 22, 2009.

Our commercial real estate loans grew by $176.3 million, or 5.3 percent during 2009 mainly due to our ability to find new quality lending opportunities made available by the tight credit markets, as well as some increased demand from existing customers in the fourth quarter of 2009. The majority of the other loan categories experienced year over year declines contributing to a $773.6 million, or 7.6 percent decrease in our total loan portfolio during the year ended December 31, 2009. The majority of the decrease was due to declines in our automobile and residential mortgage loan portfolios caused by several factors, including our high credit standards and lower consumer demand resulting from the economic recession. Additionally, we elected to sell or hold for sale approximately $380 million in residential mortgage loan originations with low fixed interest rates during 2009. We may experience further declines in the loan portfolio during 2010 due to a slow economic recovery cycle or we maintain certain asset/liability management strategies, including the sale of new residential mortgage loan originations. See more details in the Loan Portfolio section below.

Mindful of the poor operating environment and the higher delinquency rates reported throughout the banking industry, we believe our loan portfolio s performance remained at an acceptable level as of December 31, 2009. Total loans past due in excess of 30 days increased 0.55 percent to 1.61 percent of our total loan portfolio of $9.4 billion as of December 31, 2009 compared to 1.06 percent of total loans at December 31, 2008. Our non-accrual loans increased $58.9 million to $92.0 million, or 0.98 percent of total loans at December 31, 2009 as compared to $33.1 million, or 0.33 percent of total loans at December 31, 2008. The increased amount of non-accrual loans was mainly due to the economic recession. Although the timing of collection is uncertain, we believe most of our non-accrual loans are well secured and, ultimately, collectible. Our lending strategy is based on underwriting standards designed to maintain high credit quality; however, due to the potential for future credit deterioration caused by a prolonged economic downturn, management cannot provide assurance that our loan portfolio will not continue to decline from the levels reported as of December 31, 2009. See Non-performing Assets section below for further analysis of our credit quality.

Lack of loan growth and the low level of interest rates has proved challenging, from an asset and liability management perspective, for Valley and many other financial institutions during 2009. However, net interest income, the primary driver of our earnings, grew to $449.3 million, a 6.8 percent increase from the prior year. Much of the increase came from the solid foundation set by organic loan growth in 2008, a full year of interest earnings on loans acquired in the Greater Community Bancorp (Greater Community) merger during in the third quarter of 2008, and a 78 basis point decline in our costs of interest bearing deposits caused, in part, by the Federal Reserve s efforts to maintain the low level of interest rates in 2009. Our net interest margin and net interest income continued to increase during each of the first three quarters of 2009 primarily due to repricing of time deposits at lower rates. However, our net interest margin began to show signs of interest rate pressures during the fourth quarter of 2009 as it declined 14 basis points to 3.47 percent (on a fully tax equivalent basis) from the third quarter of 2009, and net interest income declined $3.4 million (on a fully tax equivalent basis) during the same period. The declines were mainly due to our continued short-term positioning of the balance sheet to benefit from a potential future rise in interest rates, while attempting to mitigate the levels of credit and capital losses that could result from such an increase in interest rates. See more details in the Net Interest Income section below.

Our non-interest income was positively impacted by a $78.5 million decrease in net impairment losses on securities, which totaled only $6.4 million for the year ended December 31, 2009 as compared to $84.8 million for the same period of 2008. The decrease was mainly due to other-than-temporary impairment charges of $69.8 million on Fannie Mae and Freddie Mac perpetual preferred stocks whose market values drastically declined subsequent to the U.S. Government s decision to place these companies into conservatorship and suspend their preferred stock dividends in the third quarter of 2008. Although our impairment charges declined substantially in 2009, our investment portfolio still contains a large amount of private label mortgage-backed securities, trust preferred securities, and other bank issued investment securities with a higher than normal risk of future impairment charges due to the current downturn in the U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. See the Investment Securities section below and Note 4 to the consolidated financial statements for further analysis of our investment portfolio.

Our non-interest expense was negatively impacted by a $18.1 million increase in the FDIC insurance assessment during 2009. Bank failures, totaling 140 institutions in 2009, led to the depletion of the FDIC s insurance fund and resulted in a large increase in our FDIC insurance assessment expense for 2009. Additionally, the FDIC required us to prepay our quarterly assessments for the fourth quarter of 2009 through 2012 during December 2009. The current economic downturn has continued to adversely influence the operating results of many financial institutions, and the FDIC has continued to report numerous additional bank failures during 2010. Notwithstanding the prepayment in 2009, the FDIC may impose additional special assessments for future quarters or may increase the FDIC standard assessments, which could adversely affect our non-interest expense in 2010 and beyond.

During 2009, we continually assessed the expected impact of the recession on our operations and our ability to maintain a well-capitalized position. Based on these assessments, we incrementally repurchased all 300,000 shares of our Series A Fixed Rate Cumulative Perpetual Preferred Stock from the U.S. Department of the Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption) during 2009. The repurchase eliminated the requirement to pay costly preferred dividends in the future to the U.S. Treasury and should have a positive impact on our net income available to common stockholders in future periods.

While not a condition to the repurchase of our senior preferred shares, we raised net proceeds of approximately $71.6 million from an at-the-market common equity offering, consisting of the sale of 5.67 million shares of newly issued common stock completed in the third quarter of 2009, and net proceeds of $63.7 million through an additional registered direct offering, consisting of the sale of 5 million shares of newly issued common stock to several institutional investors in the fourth quarter of 2009. Weighing the costs, both from an earnings and public relations prospective, and restrictions that the U.S. Treasury s TARP Capital Purchase Program had placed on our business operations, we view the equity raise as a more cost effective way to protect our stockholders interests in the current economic downturn.

As previously noted in Item 1A, Risk Factors above, the global and U.S. economic downturn has resulted in uncertainty in the financial markets in general with the possibility of a slow recovery or a fall back into recession. We believe our balance sheet is well positioned to take advantage of a rise in interest rates, although an increase in interest rates may negatively impact loan demand in the housing markets and slow the speed of the U.S. economic recovery. Additionally, the financial markets are in the midst of unprecedented change due to the economic crisis, which we expect to result in regulatory and market reform that will have an impact on the way we do business in the future. However, we believe our current capital position and conservative balance sheet will afford us the chance to move quickly on market expansion opportunities as they may arise, through possible acquisitions of failed banks or other institutions within New Jersey and the New York City Metropolitan area, at a time when many of our competitors are focused on correcting problems created from their past lending practices.

Net Interest Income

Net interest income consists of interest income and dividends earned on interest earning assets less interest expense paid on interest bearing liabilities and represents the main source of income for Valley. The net interest margin on a fully tax equivalent basis is calculated by dividing tax equivalent net interest income by average interest earning assets and is a key measurement used in the banking industry to measure income from interest earning assets. The net interest margin was 3.49 percent for the year ended December 31, 2009, an increase of 5 basis points compared to the same period of 2008. For 2009, our continuous efforts to control our funding costs coupled with a low interest rate environment allowed us to decrease the interest rates paid on savings, NOW, and money market accounts, while maturing high cost certificates of deposit also repriced at lower interest rates. Additionally, $300 million in higher cost short-term FHLB advances (that were part of our short-term liquidity strategies deployed in the fourth quarter of 2008 due to the illiquid credit markets) matured in the first half of 2009 and partly contributed to a $6.1 million decline in our interest expense on short-term borrowings as compared to 2008. Higher average earning asset balances driven by mainly prior year loan growth, including loans acquired from Greater Community in the third quarter of 2008, and investment purchases in 2009, also contributed to our net interest margin expansion, despite the negative impact of a 43 basis point decline in the yield on average earning assets. Both the declines in cost and yield resulted mainly from the Federal Reserve s efforts to maintain a low level of interest rates in 2009 which began with their cut of the target federal funds rate to a historical low rate range of between zero to 0.25 percent during the fourth quarter of 2008. However, our fourth quarter net interest income and net interest margin declined significantly from the third quarter of 2009 as we actively worked to shorten the duration of interest earning assets and attempted to reduce the credit risk of our balance sheet by (i) reinvesting normal principal paydowns on higher yield investments in shorter term and lower yielding securities, including U.S. Treasury securities and residential mortgage-backed securities issued by Ginnie Mae and (ii) continued to sell most refinanced and new residential mortgage loan originations with low fixed interest rates in the secondary market. Management expects the short-term positioning of our balance sheet to enhance our ability to benefit from the economic recovery and a potential increase in future interest rates. However, management cannot guarantee that its asset/liability management strategies will prevent future declines in the net interest margin or net interest income, even if an economy recovery or a rise in interest rates were to occur.

Net interest income on a tax equivalent basis increased $28.2 million to $454.5 million for 2009 compared with $426.3 million for 2008. During 2009, a 50 basis point decline in interest rates paid on average interest bearing liabilities and higher average interest earning assets positively impacted our net interest income, but were partially offset by a 32 basis point decline in the yield on average loans, a 46 basis point decline in the yield on average investments, and higher average interest bearing liabilities as compared to 2008. Market interest rates on interest bearing deposits were lower in 2009 as the average target federal funds rate decreased approximately 208 basis points as compared to 2008. Most of the decline in short-term interest rates came in the fourth quarter of 2008 due to the Federal Reserve actions previously noted, and had a positive impact on our cost of funds and net interest margin in 2009 as our higher cost time deposits matured or, if renewed, repriced at lower interest rates.

Our earning asset portfolio is comprised of both fixed rate and adjustable rate loans and investments. Many of our earning assets are priced based upon the prevailing treasury rates, the Valley prime rate (set by Valley management based on various internal and external factors) or on the U.S. prime interest rate as published in The Wall Street Journal. Valley s prime rate and the New York prime rate remained at 4.50 percent and 3.25 percent, respectively, since the fourth quarter of 2008, however, the average of each rate for the year ended December 31, 2009 declined 76 basis points and 183 basis points, respectively, as compared to the same period of 2008 negatively impacting our interest income on loans and net interest margin. On average, the 10 year treasury rate decreased from 3.64 percent in 2008 to 3.24 percent in 2009 also negatively impacting our yield on average loans as new and renewed fixed rate loans were originated at lower interest rates in 2009. Our New York prime rate based loan portfolio should have an immediate positive impact on the yield of our average earning assets if the prime rate begins to move upward in 2010, while an increase in treasury rates should also have a positive, but more gradual, effect on our interest income based on our ability to originate new and renewed fixed rate loans. We do not expect our Valley prime rate portfolio to have an immediate benefit to our interest income in a rising interest rate environment due to its current level above the New York prime rate. We also expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period.

Average loans totaling $9.7 billion for the year ended December 31, 2009 increased $318.9 million as compared to the same period for 2008 mainly due to higher loan balances in the 2009 period related to solid organic loan growth in the second half of 2008 and loans acquired in the Greater Community merger on July 1, 2008. Average investment securities increased $158.4 million, or 5.6 percent in 2009 as compared to the year ended December 31, 2008. Despite the higher average loan balances during 2009, interest income on a tax equivalent basis for loans decreased $11.7 million for the year ended December 31, 2009 compared with the same period in 2008 due to a 32 basis point decrease in the yield on average loans. Interest income on a tax equivalent basis for investment securities also decreased $4.8 million due to a 46 basis point decline in yield caused by normal principal paydowns of higher yield securities which were mainly reinvested in shorter term and lower yield securities as we reduced our repricing risk and positioned the balance sheet to be more asset sensitive in the current low interest rate environment. The decline in yield on investment securities was partially mitigated by the increase in average investment securities during 2009 as we reallocated some of our excess liquidity from loan principal paydowns and growth in deposits to investment securities. A 93 basis point decline in the yield on average federal funds sold and other interest bearing deposits, partially offset by a $170.0 million increase in average balances within the category, resulted in a decrease of $1.2 million in interest income on such investments in 2009 compared to the same twelve month period in 2008.

Average interest bearing liabilities increased $230 million to $10.6 billion for the year ended December 31, 2009 from the same period in 2008 mainly due to additional deposits generated from 17 de novo branches opened over the last 24 month period and our other existing branches (assisted by the nominal level of long-term interest rates on other investment alternatives available to customers during 2009) and deposits assumed from Greater Community in the latter half of 2008, partially offset by the maturity of $300 million in short-term FHLB advances during the first and second quarters of 2009. The cost of savings, NOW, and money market accounts, time deposits, and short-term borrowings decreased 65, 88, and 34 basis points, respectively, during 2009 due to a sharp decline in short-term interest rates since the fourth quarter of 2008, while the cost of long-term borrowing increased by 7 basis points during the 2009 period. Average savings, NOW, and money market deposits increased $300.1 million as compared to 2008 due to several factors, including new deposits from de novo branches, deposits assumed in the 2008 acquisition, some migration of customer repo balances caused by our decision to reduce collateral positions to support the repo product during the first quarter of 2009, as well as potential general increases from a higher U.S. household savings rate in 2009 caused by the economic downturn. Average time deposits increased $154.7 million mainly due to deposit initiatives during the fourth quarter of 2008 and the first quarter of 2009, as well as time deposits assumed in the Greater Community merger during 2008. Although average time deposits increased from 2008 due to the aforementioned factors, the actual time deposits balance at December 31, 2009 declined almost 15 percent as compared to December 31, 2008 as we have not actively pursued the retention of higher cost interest bearing deposits since the first quarter of 2009 due to lower loan volumes and the level of interest rates available to us on other investment alternatives for such funds. We anticipate that maturing time deposits will continue to have some benefit to our interest margin in the first quarter of 2010. Average long-term borrowings (including junior subordinated debentures issued to capital trusts) increased $60.0 million from 2008 due to new long-term positions in FHLB advances mainly entered into during the second quarter of 2008 that remained outstanding during 2009, as well as approximately $25 million in junior subordinated debentures assumed from Greater Community in 2008. Average short-term borrowings decreased $284.7 million mainly due to the maturity of $300 million in short-term FHLB advances in the first half of 2009 and lower customer repo balances during 2009 as the low level of interest rates reduced customers incentive to overnight sweep their demand deposit balance and we reduced our support of the product.

The net interest margin on a tax equivalent basis was 3.49 percent for the year ended December 31, 2009 compared with 3.44 percent for the year ended December 31, 2008. The change was mainly attributable to a decrease in interest rates paid on all interest bearing liabilities and higher average loan balances, partially offset by a lower yield on average loans and higher average interest bearing liabilities. Average interest rates earned on interest earning assets decreased 43 basis points while average interest rates paid on interest bearing liabilities decreased 50 basis points causing a 5 basis point increase in the net interest margin for Valley as compared to the year ended December 31, 2008.

During the fourth quarter of 2009, net interest income on a tax equivalent basis decreased $3.4 million and the net interest margin declined 14 basis points when compared with the third quarter of 2009. The linked quarter decreases were partly due to a $3.4 million decline in interest income on investments, on a tax equivalent basis. The decline in interest on investments was primarily caused by normal principal paydowns of higher yield securities over the last six months of 2009 replaced by purchases of shorter term and lower yielding securities, including U.S. Treasury securities and residential mortgage-backed securities issued by Ginnie Mae. Interest income on loans, on a tax equivalent basis, also declined $3.0 million for the fourth quarter of 2009 due to a

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$117.1 million decline in average loans and a 5 basis point decrease in the yield on average loans. The declines were due, in part, to mortgage refinancing activity at lower rates and management s decision to sell most of its refinanced and new mortgage loan originations in the secondary market. The yield on average loans was also negatively impacted by the reversal of interest income on $18.0 million in loans classified as non-accrual during the fourth quarter of 2009. The negative impact of these items on our net interest income was partially offset by a $2.8 million decrease in interest expense mainly caused by maturing high cost time deposits during the fourth quarter of 2009. The low level of interest rates combined with the continued short-term positioning of interest earning assets is expected to put pressure on our net interest margin results during 2010. To mitigate these factors, management may deploy several asset/liability management strategies, including a reduction in the sales of mortgage loan originations, a tiered duration investment strategy to enhance the yield of our investment portfolio, or an increase the competitive pricing of certain targeted loan products without compromising our high underwriting standards. A continued decline in the average rate of our time deposits due to the maturity of higher rate certificates of deposit is also expected to have a positive impact on our net interest margin.

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The following table reflects the components of net interest income for each of the three years ended December 31, 2009, 2008 and 2007:

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY AND

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	2009			2008			2007		
	Average Balance	Interest	Average Rate	Average Balance	Interest ($ in thousands)	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Loans (1)(2)	$ 9,705,909	$ 561,265	5.78%	$ 9,386,987	$ 572,944	6.10%	$ 8,261,111	$ 560,180	6.78%
Taxable investments (3)	2,700,744	140,305	5.20	2,561,299	144,497	5.64	2,576,336	142,971	5.55
Tax-exempt investments (1)(3)	272,520	14,896	5.47	253,560	15,522	6.12	269,631	17,335	6.43
Federal funds sold and other interest bearing deposits	352,473	945	0.27	182,779	2,190	1.20	205,175	10,702	5.22
Total interest earning assets	13,031,646	717,411	5.51	12,384,625	735,153	5.94	11,312,253	731,188	6.46
Allowance for loan losses	(99,716)			(80,436)			(73,546)		
Cash and due from banks	249,877			228,216			209,939		
Other assets	1,113,420			988,040			868,575		
Unrealized losses on securities available for sale, net	(17,270)			(31,982)			(12,407)		
Total assets	$ 14,277,957			$ 13,488,463			$ 12,304,814		
Liabilities and Shareholders Equity									
Interest bearing liabilities:									
Savings, NOW and money market deposits	$ 3,836,709	$ 24,894	0.65%	$ 3,536,655	$ 45,961	1.30%	$ 3,474,558	$ 75,695	2.18%
Time deposits	3,325,800	93,403	2.81	3,171,057	117,152	3.69	2,954,930	134,674	4.56
Total interest bearing deposits	7,162,509	118,297	1.65	6,707,712	163,113	2.43	6,429,488	210,369	3.27
Short-term borrowings	270,776	4,026	1.49	555,524	10,163	1.83	430,580	17,645	4.10
Long-term borrowings (4)	3,152,515	140,547	4.46	3,092,524	135,619	4.39	2,493,228	115,308	4.62
Total interest bearing liabilities	10,585,800	262,870	2.48	10,355,760	308,895	2.98	9,353,296	343,322	3.67
Non-interest bearing deposits	2,251,784			1,981,744			1,923,785		
Other liabilities	97,583			79,601			95,096		
Shareholders' equity	1,342,790			1,071,358			932,637		
Total liabilities and shareholders equity	$ 14,277,957			$ 13,488,463			$ 12,304,814		
Net interest income/interest rate spread (5)		454,541	3.03%		426,258	2.96%		387,866	2.79%
Tax equivalent adjustment		(5,227)			(5,459)			(6,181)	
Net interest income, as reported		$ 449,314			$ 420,799			$ 381,685	
Net interest margin (6)			3.45%			3.40%			3.37%
Tax equivalent effect			0.04			0.04			0.06

Net interest margin on a fully tax equivalent basis (6)	3.49%	3.44%	3.43%

(1) Interest income is presented on a tax equivalent basis using a 35 percent federal tax rate.
(2) Loans are stated net of unearned income and include non-accrual loans.
(3) The yield for securities that are classified as available for sale is based on the average historical amortized cost.
(4) Includes junior subordinated debentures issued to capital trusts which are presented separately on the consolidated statements of condition.
(5) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities and is presented on a fully tax equivalent basis.
(6) Net interest income as a percentage of total average interest earning assets.

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The following table demonstrates the relative impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in rates earned and paid by Valley on such assets and liabilities. Variances resulting from a combination of changes in volume and rates are allocated to the categories in proportion to the absolute dollar amounts of the change in each category.

CHANGE IN NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

	Years Ended December 31,					
	2009 Compared to 2008			2008 Compared to 2007		
	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate	Total Change
	(in thousands)					
Interest income:						
Loans*	$ 19,064	$ (30,743)	$ (11,679)	$ 71,944	$ (59,180)	$ 12,764
Taxable investments	7,613	(11,805)	(4,192)	(838)	2,364	1,526
Tax-exempt investments*	1,110	(1,736)	(626)	(1,006)	(807)	(1,813)
Federal funds sold and other interest bearing deposits	1,174	(2,419)	(1,245)	(1,056)	(7,456)	(8,512)
Total increase (decrease) in interest income	28,961	(46,703)	(17,742)	69,044	(65,079)	3,965
Interest expense:						
Savings, NOW and money market deposits	3,616	(24,683)	(21,067)	1,330	(31,064)	(29,734)
Time deposits	5,485	(29,234)	(23,749)	9,330	(26,852)	(17,522)
Short-term borrowings	(4,495)	(1,642)	(6,137)	4,145	(11,627)	(7,482)
Long-term borrowings and junior subordinated debentures	2,654	2,274	4,928	26,536	(6,225)	20,311
Total increase (decrease) in interest expense	7,260	(53,285)	(46,025)	41,341	(75,768)	(34,427)
Increase in net interest income	$ 21,701	$ 6,582	$ 28,283	$ 27,703	$ 10,689	$ 38,392

* Interest income is presented on a fully tax equivalent basis using a 35 percent federal tax rate.

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Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2009, 2008 and 2007:

NON-INTEREST INCOME

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Trust and investment services	$ 6,906	$ 7,161	$ 7,381
Insurance commissions	10,224	10,053	10,711
Service charges on deposit accounts	26,778	28,274	26,803
Gains on securities transactions, net	8,005	5,020	2,139
Net impairment losses on securities recognized in earnings	(6,352)	(84,835)	(17,949)
Trading (losses) gains, net			
Trading securities	5,394	(10,883)	4,651
Junior subordinated debentures carried at fair value	(15,828)	15,243	4,107
FHLB advances carried at fair value		(1,194)	(1,359)
Total trading (losses) gains, net	(10,434)	3,166	7,399
Fees from loan servicing	4,839	5,236	5,494
Gains on sales of loans, net	8,937	1,274	4,785
Gains on sales of assets, net	605	518	16,051
Bank owned life insurance (BOLI)	5,700	10,167	11,545
Other	17,043	17,222	14,669
Total non-interest income	$ 72,251	$ 3,256	$ 89,028

Non-interest income represented 9.2 percent and 0.4 percent of total interest income plus non-interest income for 2009 and 2008, respectively. For the year ended December 31, 2009, non-interest income increased $69.0 million, compared with the same period in 2008, mainly due to a decrease in net impairment losses on securities recognized in earnings and an increase in net gains on sales of loans, partially offset by an increase in net trading losses and a decrease in BOLI income.

Service charges on deposit accounts decreased $1.5 million, or 5.3 percent to $26.8 million for the year ended December 31, 2009 as compared to the same period of 2008 mainly due to a decrease in overdraft fees and non-sufficient funds charges. The decline in these fees resulted from better account management by customers, reflective of both a higher savings rate amongst customers due, in part, to the economic recession, as well as a lack of safe higher yield investment alternatives during 2009. However, fees on checking accounts increased approximately $1.0 million as compared to 2008 due to our de novo branch expansion activity and deposit accounts assumed in the Greater Community merger during the second half of 2008.

Net gains on securities transactions increased $3.0 million to $8.0 million for the year ended December 31, 2009 compared to $5.0 million in the same period in 2008. The majority of the net gains in 2009 were recognized during the fourth quarter as we sold certain corporate debt and residential mortgage-backed securities classified as available for sale to reduce both the overall credit and repricing risk exposures of our investment portfolio. During 2008, gains of $10.4 million were primarily due to the sales of certain residential mortgage-backed securities issued by Freddie Mac and Fannie Mae, and gains recognized on securities called before their maturity date. These gains were partially offset by $5.4 million in realized losses on the sale of certain impaired Fannie Mae and Freddie Mac preferred securities. See the Investment Securities section below and Note 4 to the consolidated financial statements for further analysis of our investment portfolio.

Net impairment losses on securities decreased $78.5 million to $6.4 million for the year ended December 31, 2009 compared to $84.8 million for the same period in 2008. The 2009 period includes estimated credit losses on four private label mortgage-backed securities, one pooled trust preferred security, and one equity security issued by a financial institution. The other-than-temporary impairment charges incurred during 2008 were mainly due to a decline in the value of Freddie Mac and Fannie Mae perpetual preferred securities, one private label mortgage-backed security, and two pooled trust preferred securities. During the fourth quarter of 2007, we recognized impairment charges of $17.9 million on the same Fannie Mae and Freddie Mac perpetual preferred securities impaired during 2008.

Net trading losses increased $13.6 million to a net loss of $10.4 million for the year ended December 31, 2009 compared to a net gain of $3.2 million for the same period in 2008. The increase was mainly due to a $15.8 million non-cash loss related to the change in the fair value our junior subordinated debentures carried at fair value during the 2009 period compared to $15.2 million gain recorded on the same debentures in the comparable 2008 period. The negative impact of the change in the fair value of the junior subordinated debentures from 2008 was partially offset by a $16.3 million increase in mark to market gains on our trading securities and realized gains on sales of trading securities which had a combined total net gain of $5.4 million for 2009 as compared to a net loss of $10.9 million for 2008. The 2008 period also includes a $1.2 million loss realized on one fixed FHLB advance carried at fair value, which was redeemed prior to its contractual maturity date during the second quarter of 2008. No FHLB advances were held at fair value at December 31, 2009.

Net gains on sales of loans increased $7.7 million to $8.9 million for the year ended December 31, 2009 compared to $1.3 million for the prior year. This increase was mainly due to the gains realized on conforming residential mortgage loans originated for sale totaling approximately $380 million during 2009, as we sold most conforming refinanced and new residential mortgage loans in the secondary market due to the historical low level of current interest rates. Under U.S. GAAP, we elect to carry all of our loans held for sale at fair value.

For the year ended December 31, 2009, net gains on sales of assets mainly consisted of amortization of a deferred gain on the sale of a Manhattan office building in the first quarter of 2007. Valley sold a nine-story building for approximately $37.5 million while simultaneously entering into a long-term lease for its branch office located on the first floor of the same building. The transaction resulted in a $32.3 million pre-tax gain, of which $16.4 million was immediately recognized in earnings in 2007 pursuant to the sale-leaseback accounting rules. The remaining deferred gain of $15.9 million is being amortized into earnings over the 20 year term of the lease, of which $604 thousand, $650 thousand, and $594 thousand was amortized to net gains on sales of assets during 2009, 2008, and 2007, respectively.

BOLI income decreased $4.5 million, or 43.9 percent for the year ended December 31, 2009 compared with the same period of 2008 primarily due to severe downturn in the financial markets during 2009 and its negative impact on the performance of the underlying investment securities of the BOLI asset. BOLI income is exempt from federal and state income taxes. The BOLI asset is invested primarily in U.S Treasury securities and residential mortgage-backed securities issued by U.S. government sponsored agencies, and the majority of the underlying portfolio is managed by one independent investment firm.

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Non-Interest Expense

The following table presents the components of non-interest expense for the years ended December 31, 2009, 2008 and 2007:

NON-INTEREST EXPENSE

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Salary expense	$ 128,282	$ 126,210	$ 116,389
Employee benefit expense	35,464	31,666	29,261
Net occupancy and equipment expense	58,974	54,042	49,570
FDIC insurance assessment	20,128	1,985	1,003
Amortization of other intangible assets	6,887	7,224	7,491
Goodwill impairment			2,310
Professional and legal fees	7,907	8,241	5,110
Advertising	3,372	2,697	2,917
Other	45,014	53,183	39,861
Total non-interest expense	$ 306,028	$ 285,248	$ 253,912

Non-interest expense increased $20.8 million to $306.0 million for the year ended December 31, 2009 from $285.2 million for the same period in 2008. The increase in the 2009 period was mainly due to an $18.1 million increase in the FDIC insurance assessment. Additionally, increases in salary expense, employee benefit expense, and net occupancy and equipment expense from 2008 were partially offset by a decrease in other expense during 2009. The largest component of non-interest expense is salary and employee benefit expense which totaled $163.7 million in 2009 compared with $157.9 million in 2008. The increases in most categories from 2007 and 2008 relate mainly to de novo branch expansion and the acquisition of Greater Community on July 1, 2008. See the Results of Operation-2008 Compared to 2007 section below for more details.

Over the last several years, we have maintained a branch expansion plan which focuses on expanding our presence in the New Jersey counties and towns neighboring our current office locations, as well as in New York City boroughs of Manhattan, Brooklyn and Queens. We opened 7 and 10 de novo branches during 2009 and 2008, respectively. Generally, new branches add future franchise value; however, the additional operating costs and capital requirements normally have a negative impact on non-interest expense and net income for several years until the branch operations become individually profitable. Additionally, we experienced increases in most categories of non-interest expense due to our acquisition of Greater Community on July 1, 2008.

The efficiency ratio measures total non-interest expense as a percentage of net interest income plus non-interest income. Our efficiency ratio for the year ended December 31, 2009 was 58.67 percent compared to 67.27 percent for the same period of 2008. The decrease in the efficiency ratio is primarily due to higher non-interest income in 2009 compared to 2008 mainly attributable to a $78.4 million decrease in other-than-temporary impairment charges on investment securities as compared to 2008, partially offset by an increase in the FDIC insurance assessment during the 2009 period. We strive to maintain a low efficiency ratio through diligent management of our operating expenses and balance sheet. However, even exclusive of the other-than-temporary impairment losses on securities, our current and past de novo branch expansion efforts may continue to negatively impact the ratio until these new branches become profitable operations.

Salary and employee benefit expense increased a combined $5.9 million, or 3.7 percent for the year ended December 31, 2009 compared with the same period in 2008. The increase from 2008 was mainly due to additional operating expenses related to the acquired branches and de novo branches opened during 2008 and 2009, including increases in payroll taxes, health care insurance, and pension costs, partially offset by a decrease in stock-based incentive compensation and lower annual bonus incentive accruals.

Net occupancy and equipment expense increased $4.9 million, or 9.1 percent during 2009 in comparison to 2008. This increase was also largely due to our de novo branching efforts and 16 full-service branch offices acquired from Greater Community, which caused us to incur, among other things, additional rents, real estate taxes, depreciation, cleaning and maintenance, and utilities charges in connection with investments in technology and facilities. Rent, real estate taxes, depreciation, cleaning and maintenance, and utilities expenses increased by approximately $2.7 million, $857 thousand, $671 thousand, $618 thousand, and $401 thousand, respectively, during 2009 compared with the prior year.

The FDIC insurance assessment increased $18.1 million to $20.1 million for the year ended December 31, 2009 compared to $2.0 million for the same period in 2008 mainly due to the depletion of our prior period FDIC acquisition credits during the first quarter of 2009, higher normal assessment rates and our election to participate in the FDIC s Temporary Liquidity Guarantee Program starting in the latter half of the fourth quarter of 2008. Additionally, the 2009 period includes a $6.5 million special assessment which was imposed on all depository institutions (equal to 5 basis points of total assets minus tier 1 capital as on June 30, 2009) due to depletion of the Federal Deposit Insurance Fund.

Other non-interest expense decreased $8.2 million, or 15.4 percent for the year ended December 31, 2009 compared with the same period in 2008 mostly due to (i) a $4.6 million loss recorded on the discovery of a check fraud scheme perpetrated by a long-time commercial customer of Valley National Bank in the fourth quarter of 2008, (ii) a $3.1 million expense which was accelerated from future periods during the fourth quarter of 2008 due to a hedging relationship terminated in November 2008 for two interest rate cap hedging relationships based on the effective federal funds rate, and (iii) a $1.2 million prepayment penalty on $25.0 million in Federal Home Loan Bank advances redeemed in the third quarter of 2008. Partially offsetting the decreases above, other real estate owned expense increased $1.0 million during 2009 due to a $1.4 million writedown of the carrying value of a repossessed aircraft at December 31, 2009. Significant components of other non-interest expense include data processing, telephone, service fees, debit card fees, postage, stationery, insurance, and title search fees.

Income Taxes

Income tax expense was $51.5 million for the year ended December 31, 2009, reflecting an effective tax rate of 30.7 percent, compared with $16.9 million for the same period of 2008, reflecting an effective tax rate of 15.3 percent. The increase was due to several factors, including the lower level of 2008 pre-tax income and a $6.5 million reduction in Valley s deferred tax asset valuation allowance in 2008. Additionally, the effective tax rate in 2009 was negatively impacted by lower tax advantaged income and higher state and local tax expense.

Management expects that our adherence to the income tax guidelines under U.S. GAAP will continue to result in increased volatility in our future quarterly and annual effective income tax rates because U.S. GAAP requires that any change in judgment or change in measurement of a tax position taken in a prior annual period be recognized as a discrete event in the period in which it occurs. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies. For 2010, we anticipate that our effective tax rate will approximate 31 percent.

Business Segments

We have four business segments that we monitor and report on to manage our business operations. These segments are consumer lending, commercial lending, investment management, and corporate and other adjustments. Lines of business and actual structure of operations determine each segment. Each is reviewed routinely for its asset growth, contribution to income before income taxes and return on average interest earning assets and impairment (if events or circumstances indicate a possible inability to realize the carrying amount). Expenses related to the branch network, all other components of retail banking, along with the back office departments of our subsidiary bank are allocated from the corporate and other adjustments segment to each of the other three business segments. Interest expense and internal transfer expense (for general corporate expenses) are

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allocated to each business segment utilizing a pool funding methodology, whereas each segment is allocated a uniform funding cost based on each segments average earning assets outstanding for the period. The Wealth Management Division, comprised of trust, asset management, insurance services, and broker-dealer (our broker-dealer subsidiary was sold on March 31, 2008) is included in the consumer lending segment. The financial reporting for each segment contains allocations and reporting in line with our operations, which may not necessarily be comparable to any other financial institution. The accounting for each segment includes internal accounting policies designed to measure consistent and reasonable financial reporting, and may not necessarily conform to U.S. GAAP.

Consumer lending. The consumer lending segment is mainly comprised of residential mortgages, home equity loans and automobile loans. The duration of the loan portfolio is subject to movements in the market level of interest rates and forecasted residential mortgage prepayment speeds. The average weighted life of the automobile loans within the portfolio is relatively unaffected by movements in the market level of interest rates. However, the average life may be impacted by the availability of credit within the automobile marketplace.

Average assets for 2009 decreased year over year by $437.8 million to $3.8 billion, as U.S. auto sales remain at low levels and the bank continues to sell a large portion of newly booked residential mortgages into the secondary market. Income before income taxes decreased $7.0 million to $65.0 million for the year ended December 31, 2009 as compared with the same period in 2008. The return on average interest earning assets before income taxes remained relatively flat at 1.72 percent compared with 1.71 percent for the comparable 2008 period. The lack of change was a result of proportional decreases in average assets and income before taxes. The net interest spread increased by 18 basis points to 3.77 percent as a result of a sharper decline in the bank s cost of funds when compared to the yield on consumer lending average earning assets. Net interest income decreased $8.6 million to $142.5 million when compared to $151.1 million for the same period last year. Non-interest income increased year over year by $9 million, and increased as a percentage of average assets by 35 basis points, mainly due to the increased gains on the sale of residential mortgage loans sold into the secondary market. The provision for loan losses increased in 2009 by approximately $6 million to $21 million when compared to 2008 mainly due to higher charge-offs and delinquencies for both residential mortgage and automobile loans.

Commercial lending. The commercial lending segment is mainly comprised of floating rate and adjustable rate commercial and industrial loans, as well as fixed rate owner occupied and commercial real estate loans. Due to the portfolio s interest rate characteristics, commercial lending is Valley s most sensitive business segment to movements in market interest rates.

For the year ended December 31, 2009, income before income taxes decreased $3.8 million to $81.5 million compared with the year ended December 31, 2008, primarily due to an increase in the provision for credit losses of $18.8 million which mitigated an increase in the segment s net interest spread of 12 basis points. The higher provision for credit losses is mainly attributable to the deterioration of economic conditions which began in the latter half of 2008. Commercial and industrial loan charge-offs increased $10.2 million from 2008 reflecting a higher level of partial loan charge-offs related to collateral dependent impaired loans and one fraud loan charge-off totaling $3.8 million. Construction loan charge-offs increased $1.2 million and commercial real estate loan charge-offs increased $2.6 million. In addition, the provision for credit losses includes an increase in the specific allocation for impaired loans. The return on average interest earning assets before income taxes was 1.37 percent compared with 1.65 percent for the prior year period. The increase in net interest income was primarily due to an increase in average interest earning assets by $756.8 thousand to $5.9 billion while the yield on average loans fell by 35 basis points to 5.74 percent as loans continued to reprice at the lower level of current interest rates. The decrease in the interest yield was offset by a greater decrease in the costs associated with our funding sources which lead to a gain in the margin of 12 basis points.

Investment management. The investment management segment is mainly comprised of fixed rate investments, trading securities, and depending on our liquid cash position, federal funds sold and interest-bearing deposits with banks (primarily the Federal Reserve Bank of New York). The fixed rate investments are one of

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Valley s least sensitive assets to changes in market interest rates. However, as we continue to shift the composition of the investment portfolio to shorter-duration securities, the sensitivity to market interest rates will increase. Net gains and losses due to the change in fair value of trading securities and net impairment losses on securities are reflected in the corporate and other adjustments segment.

For the year ended December 31, 2009, income before income taxes decreased $13.8 million to $55.4 million compared with the year ended December 31, 2008, primarily due to a 77 basis point decrease in the yield on average investments. The decline in investment yields is mainly attributable to the current interest environment, coupled with management s desire to reduce the duration of the portfolio while simultaneously reducing the regulatory capital required for the portfolio. As a result of the new directive, coupled with the current interest rate environment, investments purchased in 2009 were typically lower yielding than investments held or purchased in 2008. The return on average interest earning assets before income taxes decreased to 1.67 percent compared with 2.31 percent for the prior year period. Average investments increased $328.1 million to $3.3 billion in 2009, mainly a result of increased liquidity.

Corporate segment. The corporate and other adjustments segment represents income and expense items not directly attributable to a specific segment, including trading and securities gains (losses), and net impairment losses on securities not reported in the investment management segment above, interest expense related to the junior subordinated debentures issued to capital trusts, the change in fair value of Valley s junior subordinated debentures carried at fair value, interest expense related to $100 million in subordinated notes issued in July 2005, as well as income and expense from derivative financial instruments.

The loss before income taxes for the corporate segment was $34.4 million for the year ended December 31, 2009 compared with a $116.0 million loss for the year ended December 31, 2008. Net impairment losses on securities decreased $78.5 million to $6.4 million for the year ended December 31, 2009 compared to $84.8 million for the same period in 2008, which accounted for the majority of the decline in loss before income taxes. Partially mitigating the change in impairment losses on securities was an increase in FDIC insurance assessment of $18.1 million from 2008. The FDIC insurance assessment includes a $6.5 million special assessment which was imposed on all depository institutions (equal to 5 basis points of total assets minus tier 1 capital as on June 30, 2009) due to depletion of the Federal Deposit Insurance Fund. In addition, the assessment includes the expense associated with the Bank s participation in the FDIC s Transaction Guarantee Program and an increase in the normal assessment rate as compared to 2008.

ASSET/LIABILITY MANAGEMENT

Interest Rate Sensitivity

Our success is largely dependent upon our ability to manage interest rate risk. Interest rate risk can be defined as the exposure of our interest rate sensitive assets and liabilities to the movement in interest rates. Our Asset/Liability Management Committee is responsible for managing such risks and establishing policies that monitor and coordinate our sources, uses and pricing of funds. Asset/Liability management is a continuous process due to the constant change in interest rate risk factors. In assessing the appropriate interest rate risk levels for us, management weighs the potential benefit of each risk management activity within the desired parameters of liquidity, capital levels and management s tolerance for exposure to income fluctuations. Many of the actions undertaken by management utilize fair value analysis and attempts to achieve consistent accounting and economic benefits for financial assets and their related funding sources. We have predominately focused on managing our interest rate risk by attempting to match the inherent risk of financial assets and liabilities. Specifically, management employs multiple risk management activities such as the sale of lower yielding new residential mortgage originations, change in product pricing levels, change in desired maturity levels for new originations, change in balance sheet composition levels as well as several other risk management activities.

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We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates, prepayment assumptions, and pricing sensitivity of certain assets and liabilities as of December 31, 2009. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2009. The impact of interest rate derivatives, such as interest rate swaps and caps, is also included in the model.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of December 31, 2009. Although the size of Valley s balance sheet is forecasted to remain constant as of December 31, 2009 in our model, the composition is adjusted to reflect new interest earning assets and interest bearing liability originations and rate spreads utilizing our actual originations during the fourth quarter of 2009. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2009.

The following table reflects management s expectations of the change in our net interest income over a one-year period in light of the aforementioned assumptions:

Immediate Changes in Levels of Interest Rates	Change in Net Interest Income Over One Year Horizon At December 31, 2009	
	Dollar Change	Percentage Change
	($ in thousands)	
+3.00%	$11,617	2.46%
+2.00	12,323	2.61
+1.00	1,354	0.29
(1.00)	(19,776)	(4.19)

Overall, our net interest income is affected by changes in interest rates and cash flows from our loan and investment portfolios. We actively manage these cash flows in conjunction with our liability mix, duration and rates to optimize the net interest income, while prudently structuring the balance sheet to manage changes in interest rates. Additionally, our net interest income is impacted by the level of competition within our marketplace. Competition can increase the cost of deposits and negatively impact the level of interest rates attainable on loans, which may result in downward pressure on our net interest margin in future periods.

Convexity is a measure of how the duration of a financial instrument changes as market interest rates change. Potential movements in the convexity of bonds held in our investment portfolio, as well as the duration of the loan portfolio may have a positive or negative impact to our net interest income in varying interest rate environments. As a result, the increase or decrease in forecasted net interest income may not have a linear relationship to the results reflected in the table above. Management cannot provide any assurance about the actual effect of changes in interest rates on our net interest income.

As noted in the table above, we are more susceptible to a decrease in interest rates under a scenario with an immediate parallel change in the level of market interest rates than an increase in interest rates under the same assumptions. However, we believe that a 100 basis point decrease in interest rates as of December 31, 2009 is unlikely given current interest rate levels. A 100 basis point immediate increase in interest is projected to increase net interest income over the next twelve months by only 0.29 percent. The lack of balance sheet sensitivity to such a move in interest rates, is due, in part, to the fact that many of our adjustable rate loans are tied to the Valley prime rate (set by management) which currently exceeds the New York prime rate by 125 basis points. Additional information regarding our use of these prime rates is located under the Net Interest Income section above. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

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Although, we do not expect our Valley prime rate loan portfolio to have an immediate benefit to our interest income in a rising interest rate environment, we ve positioned a large portion of our investment portfolio in short-term securities and residential mortgage-backed securities that will allow us to benefit from a potential rise in interest rates. Specifically, we expect interest income on many of our residential mortgage-backed securities with unamortized purchase premiums to improve if interest rates were to move upward and prepayment speeds on the underlying mortgages decline. The decline in prepayments will lengthen the expected life of each security and reduce the amount of premium amortization expense recognized against interest income each period. Additionally, we have cash flow interest rate caps with a $200 million notional value, which protect us from upward increases in interest rates on certain deposits and short-term borrowings. All of these actions have expanded the expected net interest income benefits in rising interest rate environments.

Our interest rate caps designated as cash flow hedging relationships, which are the majority of the derivative financial instruments entered into by Valley, are designed to protect us from upward movements in interest rates on certain deposits and short-term borrowings based on the prime and effective federal funds rates. Due to the current low level of interest rates and the strike rate of these instruments, they are expected to have little impact over the next twelve month period on our net interest income under the scenarios outlined above. As of December 31, 2009, the effect of a 300 basis point increase in interest rates on our derivative holdings would result in an annual $880 thousand positive variance in net interest income. The effect of a 100 basis point decrease in interest rates on our derivative holdings would result in an annual $499 thousand negative variance in net interest income. See Note 15 Commitments and Contingencies for further information on our derivative transactions.

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The following table sets forth the amounts of interest earning assets and bearing liabilities, outstanding on December 31, 2009 and their associated fair values. The expected cash flows are categorized based on each financial instruments anticipated maturity or interest rate reset date. The amount of assets and liabilities shown, which reprice or mature during a particular period, were determined based on the earlier of the term to repricing or the term to repayment, inclusive of the impact of market level prepayment speeds.

INTEREST RATE SENSITIVITY ANALYSIS

	Rate	2010	2011	2012	2013	2014	Thereafter	Total Balance	Fair Value
					($ in thousands)				
Interest sensitive assets:									
Interest bearing deposits with banks	0.25%	$ 355,659	$	$	$	$	$	$ 355,659	$ 355,659
Investment securities held to maturity	3.84	550,296	205,120	182,610	99,293	87,124	459,945	1,584,388	1,548,006
Investment securities available for sale	4.69	286,127	325,691	224,544	85,211	78,110	352,798	1,352,481	1,352,481
Trading securities	7.79						32,950	32,950	32,950
Loans held for sale	4.67	25,492						25,492	25,492
Loans:									
Commercial	5.44	1,272,927	214,935	151,033	76,506	29,402	56,448	1,801,251	1,777,543
Mortgage	5.80	1,803,514	876,159	738,641	696,444	652,623	1,116,333	5,883,714	5,762,203
Consumer	5.51	995,805	331,652	184,482	89,244	33,187	50,736	1,685,106	1,795,737
Total interest sensitive assets	5.20%	$ 5,289,820	$ 1,953,557	$ 1,481,310	$ 1,046,698	$ 880,446	$ 2,069,210	$ 12,721,041	$ 12,650,071
Interest sensitive liabilities:									
Deposits:									
Savings, NOW and money market	0.51%	$ 1,321,773	$ 804,825	$ 804,825	$ 371,163	$ 185,581	$ 556,745	$ 4,044,912	$ 4,044,912
Time	2.08	2,219,622	323,001	205,249	80,279	120,739	133,477	3,082,367	3,135,611
Short-term borrowings	0.64	216,147						216,147	206,296
Long-term borrowings	4.25	212,275	207,269	53,069	1,001		2,472,706	2,946,320	3,115,285
Junior subordinated debentures	7.65						181,150	181,150	180,639
Total interest sensitive liabilities	2.15%	$ 3,969,817	$ 1,335,095	$ 1,063,143	$ 452,443	$ 306,320	$ 3,344,078	$ 10,470,896	$ 10,682,743
Interest sensitivity gap		$ 1,320,003	$ 618,462	$ 418,167	$ 594,255	$ 574,126	$ (1,274,868)	$ 2,250,145	$ 1,967,328
Ratio of interest sensitive assets to interest sensitive liabilities		1.33:1	1.46:1	1.39:1	2.31:1	2.87:1	0.62:1	1.21:1	1.18:1

Expected maturities are contractual maturities adjusted for all projected payments of principal. For investment securities, loans, long-term borrowings and junior subordinated debentures, expected maturities are based upon contractual maturity or call dates, projected repayments and prepayments of principal. The prepayment experience reflected herein is based on historical experience combined with market consensus expectations derived from independent external sources. The actual maturities of these instruments could vary substantially if future prepayments differ from historical experience or current market expectations. Repricing data for each instrument reflects the contractual interest rate/reset date. For non-maturity deposit liabilities, in accordance with standard industry practice and our historical experience, decay factors

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were used to estimate deposit runoff. Our cash flow derivatives are designed to protect us from upward movement in interest rates on certain deposits and short-term borrowings. The interest rate sensitivity table reflects the sensitivity at current interest rates. As a result, the notional amount of our derivatives is not included in the table. We use various assumptions to estimate fair values. See Note 3 of the consolidated financial statements for further discussion of fair value measurements.

The total gap re-pricing within one year as of December 31, 2009 was a positive $1.3 billion, representing a ratio of interest sensitive assets to interest sensitive liabilities of 1.33:1. Current market prepayment speeds and balance sheet management strategies implemented throughout 2009 have allowed us to maintain our asset sensitivity level reported in the table above comparable to December 31, 2008. The total gap re-pricing position, as reported in the table above, reflects the projected interest rate sensitivity of our principal cash flows based on market conditions as of December 31, 2009. As the market level of interest rates and associated prepayment speeds move, the total gap re-pricing position will change accordingly, but not likely in a linear relationship. Management does not view our one year gap position as of December 31, 2009 as presenting an unusually high risk potential, although no assurances can be given that we are not at risk from interest rate increases or decreases.

Liquidity

Bank Liquidity. Liquidity measures the ability to satisfy current and future cash flow needs as they become due. A bank s liquidity reflects its ability to meet loan demand, to accommodate possible outflows in deposits and to take advantage of interest rate opportunities in the marketplace. Liquidity management is monitored by our Asset/Liability Management Committee and the Investment Committee of the Board of Directors of Valley National Bank, which review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

Valley National Bank has no required regulatory liquidity ratios to maintain; however, it adheres to an internal liquidity policy. The current policy maintains that we may not have a ratio of loans to deposits in excess of 120 percent and non-core funding (which generally includes certificates of deposits $100 thousand and over, federal funds purchased, repurchase agreements and Federal Home Loan Bank advances) greater than 50 percent of total assets. At December 31, 2009, we were in compliance with the foregoing policies.

On the asset side of the balance sheet, we have numerous sources of liquid funds in the form of cash and due from banks, interest bearing deposits with banks (including the Federal Reserve Bank of New York), investment securities held to maturity maturing within one year, investment securities available for sale, trading securities, loans held for sale, and, from time to time, federal funds sold. These liquid assets totaled approximately $2.2 billion and $2.1 billion at December 31, 2009 and 2008, respectively, representing 17.4 percent and 16.4 percent of earning assets, and 15.5 percent and 14.2 percent of total assets at December 31, 2009 and 2008, respectively. Of the $2.2 billion of liquid assets at December 31, 2009, approximately $1.1 billion of various investment securities were pledged to counter parties to support our earning asset funding strategies.

Additional liquidity is derived from scheduled loan payments of principal and interest, as well as prepayments received. Loan principal payments are projected to be approximately $3.6 billion over the next twelve months. As a contingency plan for significant funding needs, liquidity could also be derived from the sale of conforming residential mortgages from our existing loan portfolio, or from the temporary curtailment of lending activities.

On the liability side of the balance sheet, we utilize multiple sources of funds to meet liquidity needs. Our core deposit base, which generally excludes certificates of deposit over $100 thousand as well as brokered certificates of deposit, represents the largest of these sources. Core deposits averaged approximately $8.0 billion and $7.4 billion for the years ended December 31, 2009 and 2008, representing 61.7 percent and 59.7 percent of average earning assets at December 31, 2009 and 2008, respectively. The level of interest bearing deposits is

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affected by interest rates offered, which is often influenced by our need for funds and the need to match the maturities of assets and liabilities. Brokered certificates of deposit totaled $2.9 million at December 31, 2009 and 2008.

In the event that additional short-term liquidity is needed, Valley National Bank has established relationships with several correspondent banks to provide short-term borrowings in the form of federal funds purchased. While, at December 31, 2009, there were no firm lending commitments in place, management believes that we could borrow approximately $1.0 billion for a short time from these banks on a collective basis. The Bank is also a member of the Federal Home Loan Bank of New York and has the ability to borrow from them in the form of FHLB advances secured by pledges of residential mortgage-backed securities and a blanket assignment of qualifying residential mortgage loans. Additionally, funds could be borrowed overnight from the Federal Reserve Bank via the discount window as a contingency for additional liquidity. During the second quarter 2009, we expanded our ability to borrow from the discount window as we provided additional collateral loans consisting primarily of automobile loans. At December 31, 2009, our borrowing capacity under the Fed s discount window was approximately $390 million.

The following table lists, by maturity, all certificates of deposit of $100 thousand and over at December 31, 2009 (in thousands):

Less than three months	$ 555,727
Three to six months	219,759
Six to twelve months	313,384
More than twelve months	315,001
	$ 1,403,871

We have access to a variety of short-term and long-term borrowing sources to support our asset base. Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase (repos), treasury tax and loan accounts, and FHLB advances. Short-term borrowings decreased by $424.2 million to $216.1 million at December 31, 2009 compared to $640.3 million at December 31, 2008 primarily due to maturity of $300.0 million short-term FHLB advances and a $132.7 million decrease in short-term repos, partly offset by a $4.8 million increase in treasury tax and loan accounts. At December 31, 2009, all short-term repos represent customer deposit balances being swept into this vehicle overnight.

The following table sets forth information regarding Valley s short-term repos at the dates and for the periods indicated:

	Years Ended December 31,		
	2009	2008	2007
		($ in thousands)	
Securities sold under agreements to repurchase:			
Average balance outstanding	$ 203,585	$ 418,518	$ 412,035
Maximum outstanding at any month-end during the period	215,182	437,272	449,595
Balance outstanding at end of period	206,542	335,510	394,512
Weighted average interest rate during the period	0.91%	1.51%	4.08%
Weighted average interest rate at the end of the period	0.67%	0.81%	2.92%

Corporation Liquidity. Valley s current recurring cash requirements primarily consist of dividends to common shareholders and interest expense on junior subordinated debentures issued to capital trusts. These cash needs are routinely satisfied by dividends collected from Valley National Bank, along with cash flows from investment securities held at the holding company. See Note 16 Shareholders Equity in the accompanying notes to the consolidated financial statements included elsewhere in this report regarding restrictions to such subsidiary bank dividends. Projected cash flows from these sources are expected to be adequate to pay common dividends, if declared, and interest expense payable to capital trusts, given the current capital levels and current profitable operations of the bank subsidiary. As part of our on-going asset/liability management strategies, Valley could use cash to repurchase shares of its outstanding common stock under its share repurchase program, call for early redemption all, or part, of its junior subordinated debentures issued to VNB Capital Trust I, purchase preferred securities issued by VNB Capital Trust I (and extinguish the corresponding junior subordinated debentures), or repurchase its warrant outstanding to the U.S. Treasury (see discussion below). The cash required for these activities may be met by using Valley s own funds, dividends received from the Bank, as well as new borrowed funds.

On November 14, 2008, Valley issued $300 million in nonvoting senior preferred shares to the U.S. Treasury under its TARP Capital Purchase Program mainly to support growth in our lending operations and better position Valley for a potentially extended downturn in the U.S. economy. During 2009, we incrementally repurchased all 300,000 shares of our senior preferred shares from the U.S. Treasury for an aggregate purchase price of $300 million (excluding accrued and unpaid dividends paid at the date of redemption) during 2009. The repurchase eliminated our future requirement to pay costly preferred dividends which totaled $13.0 million in cash payments during the year ended December 31, 2009. At December 31, 2009, a ten-year warrant to purchase 2.4 million of our common shares (at $18.66 per share) remains outstanding to the U.S. Treasury. We have calculated an internal value for the warrant, and are currently negotiating the redemption with U.S. Treasury. However, if an agreement can not be reached with the U.S. Treasury, the warrant will be sold at public auction. We do not currently have a time frame in which the negotiations will be completed; however, we anticipate Valley will have adequate cash available for the repurchase based upon our internal valuation.

While not a condition to the repurchase of our senior preferred shares, we raised net proceeds of approximately $71.6 million from an at-the-market common equity offering, consisting of the sale of 5.67 million shares of newly issued common stock completed in the third quarter of 2009, and net proceeds of $63.7 million through an additional registered direct offering, consisting of the sale of 5 million shares of newly issued common stock to several institutional investors in the fourth quarter of 2009. Valley may use the net proceeds for a variety of possible uses, including, in part, the repurchase of the warrant held by the U.S. Treasury.

Investment Securities Portfolio

Securities are classified as held to maturity and carried at amortized cost when Valley has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity, and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Securities classified as trading are held primarily for sale in the short term or as part of our balance sheet management strategies and are carried at fair value, with unrealized gains and losses included immediately in the net trading (losses) gains category of non-interest income. Valley determines the appropriate classification of securities at the time of purchase. The decision to purchase or sell securities is based upon the current assessment of long and short-term economic and financial conditions, including the interest rate environment and other statement of financial condition components. Securities with limited marketability and/or restrictions, such as Federal Home Loan Bank and Federal Reserve Bank stocks, are carried at cost in other assets.

At December 31, 2009, our investment portfolio was comprised of U.S Treasury securities, tax-exempt issues of states and political subdivisions, residential mortgage-backed securities (including 20 private label mortgage-backed securities), single-issuer trust preferred securities principally issued by bank holding companies (bank issuers) (including three pooled securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. There were no securities in the name of any one issuer exceeding 10 percent of shareholders equity, except for residential mortgage-backed securities issued by U.S. government sponsored agencies, including Fannie Mae, Freddie Mac and Ginnie Mae.

Among other securities, our investments in the private label mortgage-backed securities, trust preferred securities, perpetual preferred securities, equity securities, and bank issued corporate bonds may pose a higher

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risk of future impairment charges by us as a result of the current downturn in the U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. Many of the bank issuers of trust preferred securities within our investment portfolio remain participants in the U.S. Treasury s TARP Capital Purchase Program. For TARP participants, dividend payments to trust preferred security holders are currently senior to and payable before dividends can be paid on the preferred stock issued under the TARP Capital Purchase Program. Some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon recommendations by the U.S. Government and the banking regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within our investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. See the Other-Than-Temporary Impairment Analysis section below for further details.

Investment securities at December 31, 2009, 2008 and 2007 were as follows:

	2009	2008 (in thousands)	2007
Held to maturity:			
U.S. government agency securities	$	$ 24,958	$
Obligations of states and political subdivisions	313,360	201,858	230,201
Residential mortgage-backed securities	936,385	593,275	52,073
Trust preferred securities	281,836	281,824	241,329
Corporate and other debt securities	52,807	52,822	32,510
Total investment securities held to maturity	$ 1,584,388	$ 1,154,737	$ 556,113
Available for sale:			
U.S. Treasury securities	$ 276,285	$	$ 5,133
U.S. government agency securities		102,564	326,086
Obligations of states and political subdivisions	33,411	48,191	43,828
Residential mortgage-backed securities	940,505	1,215,386	1,049,596
Trust preferred securities	36,412	29,347	64,467
Corporate and other debt securities	19,042	5,157	20,821
Total debt securities	1,305,655	1,400,645	1,509,931
Equity securities	46,826	34,797	96,479
Total investment securities available for sale	$ 1,352,481	$ 1,435,442	$ 1,606,410
Trading:			
U.S. government agency securities	$	$	$ 224,945
Obligations of states and political subdivisions			2,803
Residential mortgage-backed securities			28,959
Trust preferred securities	32,950	34,236	66,366
Corporate and other debt securities			399,504
Total trading securities	$ 32,950	$ 34,236	$ 722,577
Total investment securities	$ 2,969,819	$ 2,624,415	$ 2,885,100

As of December 31, 2009, we had $1.4 billion of securities classified as available for sale, a decrease of $83.0 million from December 31, 2008 due, in part, to our reinvestment of normal principal paydowns into residential mortgage-backed securities primarily issued by Ginnie Mae that were classified as held to maturity during 2009. We increased our holdings of government guaranteed residential mortgage-backed securities classified as held to maturity and U.S. Treasury securities classified as available for sale during 2009 to help reduce credit risk and potential volatility in our balance sheet. As of December 31, 2009, the available for sale securities had a net unrealized loss of $2.8 million, net of deferred taxes, compared to a net unrealized loss of $32.7 million, net of deferred taxes, at December 31, 2008. Available for sale securities are not considered trading account securities, but rather are securities which may be sold on a non-routine basis.

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Our trading securities portfolio consisted of $33.0 million in trust preferred securities at December 31, 2009. These securities were originally transferred to trading securities on January 1, 2007 upon our election to carry these securities at fair value under new authoritative guidance under U.S. GAAP. The decline in trading securities from 2007 to 2008 was mainly due to the maturity and sale of short-term investment securities and the reallocation of such proceeds to new loan originations during 2008.

The following table presents the maturity distribution schedule with its corresponding weighted-average yields of held to maturity and available for sale securities at December 31, 2009:

	U.S. Treasury Securities		Obligations of States and Political Subdivisions		Residential Mortgage-Backed Securities (5)		Trust Preferred Securities		Corporate and Other Debt Securities		Total (4)	
	Amount (1)	Yield (2)	Amount (1)	Yield (2)(3)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)	Amount (1)	Yield (2)
	($ in thousands)											
Held to maturity:												
0-1 year	$	%	$ 136,514	1.98%	$	%	$	%	$ 100	2.33%	$ 136,614	1.98%
1-5 years			47,606	5.97	1	7.88			18,449	5.30	66,056	5.78
5-10 years			53,614	6.20	23,650	2.06			25,276	7.87	102,540	5.66
Over 10 years			75,626	5.94	912,734	2.61	281,836	6.92	8,982	7.39	1,279,178	3.79
Total securities	$	%	$ 313,360	4.26%	$ 936,385	2.60%	$ 281,836	6.92%	$ 52,807	6.88%	$ 1,584,388	3.84%
Available for sale:												
0-1 year	$	%	$ 12,417	7.11%	$ 328	7.89%	$	%	$	%	$ 12,745	7.13%
1-5 years	276,285	1.16	13,009	6.98	5,760	6.59			6,779	3.80	301,833	1.57
5-10 years			5,006	6.34	59,169	5.01			5,967	3.35	70,142	4.96
Over 10 years			2,979	6.62	875,248	5.60	36,412	3.62	6,296	1.51	920,935	5.49
Total securities	$ 276,285	1.16%	$ 33,411	6.90%	$ 940,505	5.57%	$ 36,412	3.62%	$ 19,042	2.90%	$ 1,305,655	4.57%

(1) Held to maturity amounts are presented at amortized costs, stated at cost less principal reductions, if any, and adjusted for accretion of discounts and amortization of premiums. Available for sale amounts are presented at fair value.
(2) Average yields are calculated on a yield-to-maturity basis.
(3) Average yields on obligations of states and political subdivisions are generally tax-exempt and calculated on a tax-equivalent basis using a statutory federal income tax rate of 35 percent.
(4) Excludes equity securities which have indefinite maturities.
(5) Mortgage-backed securities are shown using stated final maturity.

At December 31, 2009, we had $936.4 million and $940.5 million of residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively. The majority of these residential mortgage-backed securities held by us are guaranteed by federal agencies. Approximately $9.2 million and $133.7 million of the residential mortgage-backed securities classified as held to maturity and available for sale securities, respectively, were private label mortgage-backed securities. The private label mortgage-backed securities classified as held to maturity and available for sale securities had gross unrealized losses of $10 thousand and $10.0 million, respectively, at December 31, 2009. The residential mortgage-backed securities portfolio is a significant source of our liquidity through the monthly cash flow of principal and interest. Mortgage-backed securities, like all securities, are sensitive to change in the interest rate environment, increasing and decreasing in value as interest rates fall and rise. As interest rates fall, the increase in prepayments can reduce the yield on the mortgage-backed securities portfolio, and reinvestment of the proceeds will be at lower yields. Conversely, rising interest rates will reduce cash flows from prepayments and extend anticipated duration of these assets. We monitor the changes in interest rates, cash flows and duration, in accordance with our investment policies. Management seeks out investment securities with an attractive spread over our cost of funds.

Other-Than-Temporary Impairment Analysis

We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by

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regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in other-than-temporary impairment on our investment securities in future periods. Effective January 1, 2009, management early adopted and now evaluates the held to maturity and available for sale investment securities portfolios quarterly for other-than-temporary impairment in accordance with new authoritative guidance under ASC Topic 320, Investments Debt and Equity Securities. Among other things, this guidance requires declines in the fair value of debt securities, considered to be other-than-temporary, to be reflected in earnings as realized losses to the extent the impairment is related to credit losses, but only if management has no intent to sell the security, and it is not more likely than not management will be required to sell the security before recovery of its amortized cost basis. The amount of the impairment related to non-credit factors is recognized in other comprehensive income.

Other-than-temporary impairment means we believe the security s impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. As a result of the adoption of the new authoritative guidance, when a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, we have to first consider (a) whether we intend to sell the security, and (b) whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but we do not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, we compare the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed above, the portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of income, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss. Prior to our adoption of the new authoritative guidance under ASC Topic 320 on January 1, 2009, total other-than-temporary impairment losses (i.e., both credit and non-credit losses) on debt securities were recognized through earnings with an offset to reduce the amortized cost basis of the applicable debt securities by their entire impairment amount.

To determine whether a security s impairment is other-than-temporary, we consider factors that include:

- The causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility.

- The severity and duration of the decline.

- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term.

- Our intent to sell security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis less any current-period credit loss.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not it is probable that current or future contractual cash flows have or may be impaired.

The investment grades in the table below reflect multiple third parties independent analysis of each security. For many securities, the rating agencies may not have performed an independent analysis of the tranches owned by us, but rather an analysis of the entire investment pool. For this and other reasons, we believe the assigned investment grades may not accurately reflect the actual credit quality of each investment and should not be viewed in isolation as a measure of the quality of our investment portfolio.

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The following table presents the held to maturity and available for sale investment securities portfolios by investment grades at December 31, 2009:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held to maturity:				
Investment grades*				
AAA Rated	$ 976,641	$ 18,558	$ (441)	$ 994,758
AA Rated	117,811	2,287	(119)	119,979
A Rated	160,459	3,649	(1,055)	163,053
BBB Rated	115,259	1,318	(16,352)	100,225
Non-investment grade	514		(176)	338
Not rated	213,704	327	(44,378)	169,653
Total investment securities held to maturity	$ 1,584,388	$ 26,139	$ (62,521)	$ 1,548,006
Available for sale:				
Investment grades*				
AAA Rated	$ 1,081,442	$ 39,700	$ (2,790)	$ 1,118,352
AA Rated	53,823	389	(3,267)	50,945
A Rated	54,383	528	(9,891)	45,020
BBB Rated	38,345	40	(8,728)	29,657
Non-investment grade	108,256	1,797	(14,902)	95,151
Not rated	13,416	76	(136)	13,356
Total investment securities available for sale	$ 1,349,665	$ 42,530	$ (39,714)	$ 1,352,481

* Rated using external rating agencies (primarily S&P and Moody s). Ratings categories include entire range. For example, A rated includes A+, A, and A-. Split rated securities with two ratings are categorized at the higher of the rating levels.

The held to maturity portfolio includes $213.7 million in investments not rated by the rating agencies with aggregate unrealized losses of $44.4 million at December 31, 2009. The unrealized losses for this category relate to 11 single-issuer bank trust preferred securities, of which $33.6 million in unrealized losses relate to securities issued by one bank holding company with a combined amortized cost of $55.0 million. Valley privately negotiated the purchase of the $55.0 million in trust preferred securities from the bank issuer and holds all of the securities of two issuances. Typical of most trust preferred issuances, the bank issuer may defer interest payments for up to five years with interest payable on the deferred balance. Beginning in August and October of 2009, the bank issuer has elected to defer its scheduled interest payments on both of the security issuances. The bank issuer is currently operating under an agreement with its bank regulators which requires, among other things, the issuer to receive permission from the regulators prior to resuming its regularly scheduled payments on both security issuances. However, the issuer s principal subsidiary bank reported, in its most recent regulatory filing, that it meets the regulatory minimum requirements to be considered a well-capitalized institution as of December 31, 2009. Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. We will continue to closely monitor the credit risk of this issuer and may be required to recognize other-than-temporary impairment on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity or available for sale are paying in accordance with their terms and have no deferrals of interest or defaults. Additionally, we analyze the performance of each issuer on a quarterly basis, including a review of performance data from the issuer s most recent bank regulatory report to assess the company s credit risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon our quarterly review, all of the issuers appear to meet the regulatory minimum requirements to be considered a well-capitalized financial institution.

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Although the majority of these financial institutions were performing at the end of this year, there can be no assurance that the current economic conditions or bank regulatory actions will not impair the institutions future ability to repay our investment in the trust preferred securities, which may result in significant other-than-temporary impairment charges to our future earnings. In this volatile environment a growing number of banking institutions have been required to defer trust preferred payments and a growing number of banking institutions have been put in receivership by the FDIC during this year. A deferral event by a bank holding company for which we hold trust preferred securities may require us to recognize an other-than-temporary impairment charge if it is determined that repayment of contractual interest or principal is unlikely, and an FDIC receivership for any single-issuer would result in a significant loss. See Note 4 to the consolidated financial statements for further details on our trust preferred securities portfolios.

The available for sale portfolio includes investments with non-investment grade ratings with amortized cost and fair values totaling $108.3 million and $95.2 million, respectively, at December 31, 2009. The $14.9 million in unrealized losses for this category relate to nine private label mortgage-backed securities and two pooled trust preferred securities, of which approximately $12.2 million in unrealized losses relate to non-credit losses (recognized in other comprehensive income) on other-than-temporarily impaired securities at December 31, 2009. See the section below and Note 4 to the consolidated financial statements for further information on management s assessment of potential or additional other-than-temporary impairment for these securities.

Other-than-Temporarily Impaired Securities

Other-than-temporary impairment is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of Valley. See the Critical Accounting Policies and Estimates section above for further discussion of this policy. The following table provides information regarding our other-than-temporary impairment charges on securities recognized in earnings for the years ended December 31, 2009, 2008, and 2007:

	2009	2008 (in thousands)	2007
Held to maturity:			
Trust preferred securities	$	$ 7,846	$
Available for sale:			
Residential mortgage-backed securities	5,735	6,435	
Trust preferred securities	183		
Equity securities	434	70,554	17,949
Net impairment losses on securities recognized in earnings	$ 6,352	$ 84,835	$ 17,949

Within the residential mortgage-backed securities category of the available for sale portfolio, Valley owns 20 individual private label mortgage-backed securities. We estimate loss projections for each security by stressing the individual loans collateralizing the security and determining a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed at each quarter end during the year. Generally, the range of expected constant default rates (CDR), loss severity rates and constant prepayment rates (CPR) used in the modeling scenarios for the 20 private label mortgage-backed securities were as follows: a CDR of 0 percent to 11.9 percent, a loss severity rate of 12.9 percent to 56.6 percent, and a CPR of 0.8 percent to 26.4 percent.

During 2009, 4 of the 20 private label mortgage-backed securities classified as available for sale, with an amortized cost and fair value of $41.2 million and $36.7 million, respectively, at December 31, 2009 were deemed to have estimated credit losses totaling $5.7 million (one of the securities was originally found to be other-than-temporarily impaired at December 31, 2008 resulting in an $6.4 million charge to earnings). In evaluating the range of likely future cash flows for each of the four securities, we applied security as well as market specific assumptions, based on the credit characteristics of each security to multiple cash flow models. Multiple present value cash flow analyses were utilized in determining future expected cash flows, in part due to the vast array of assumptions prevalent in the current market and used by market participants in valuing similar type securities. Under certain stress scenarios estimated future losses may arise. For the 4 securities in which we recorded an other-than-temporary impairment, the range of expected default rates, loss severities, prepayment speeds, loan-to-value ratios at origination and FICO scores used in modeling scenarios for the four impaired securities were generally the following: a CDR of 4.9 percent to 11.9 percent, a loss severity rate of 51.2 percent to 56.6 percent, a CPR of 10.2 percent to 26.4 percent, weighted average loan to value ratios at origination between 59.0 percent to 72.3 percent, and the average portfolio FICO score ranged between 713 and 727 at December 31, 2009. Each security s cash flows were discounted at the security s effective interest rate. Although we recognized other-than-temporary impairment charges on the securities, each security is currently performing in accordance with its contractual obligations.

Within the trust preferred securities category of the available for sale portfolio, Valley owns three pooled trust preferred securities, principally collateralized by securities issued by banks, with a combined amortized cost and fair value of $25.8 million and $10.9 million, respectively. Two of the three securities were other-than-temporarily impaired at December 31, 2008, and resulted in an impairment charge of $7.8 million, as each of Valley s tranches in the securities had projected cash flows below their future contractual principal and interest payments. After the impairment, management no longer had a positive intent to hold the pooled trust preferred securities to their maturity dates due to the significant deterioration in both issuers creditworthiness, and as a result, we were required to transfer these securities, with a total adjusted carrying value of $1.1 million at the time of transfer, from the held to maturity portfolio to the available for sale portfolio at December 31, 2008. Additionally, effective January 1, 2009, the amortized cost amounts for these impaired securities were increased by a total of $7.5 million (with offsetting entry to other comprehensive income) for the non-credit portion of the $7.8 million impairment charge taken during 2008 due to our early adoption of the new authoritative accounting guidance included in ASC Topic 320. For the year ended December 31, 2009, we recognized additional estimated credit losses of $183 thousand (reclassified from other comprehensive income to earnings) for one of the three pooled trust preferred securities as higher default rates decreased the expected cash flows from the security. After all impairment charges, the two pooled trust preferred securities had a combined amortized cost and fair value of $8.4 million and $705 thousand, respectively, at December 31, 2009.

For the year ended December 31, 2009 and 2008, we recognized other-than-temporary impairment charges of $434 thousand and $70.6 million, respectively, on equity securities classified as available for sale. The 2009 impairment charge relates to one common equity security issued by a bank with an adjusted carrying value of $723 thousand at December 31, 2009. The impairment was recognized based on the length of time and the severity of the difference between the security s book value and its observable market price and the security s near term prospects for recovery. For the year-ended December 31, 2008, the majority of the impairment charges related to perpetual preferred equity securities issued by Fannie Mae and Freddie Mac as a significant decline in market value of these securities was caused by the U.S. Government placing these entities into conservatorship and suspending their preferred stock dividends during the third quarter of 2008. We also recorded a total of $733 thousand in other-than-temporary impairment charges on three common equity securities and one preferred equity security issued by banks during 2008.

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Loan Portfolio

The following table reflects the composition of the loan portfolio for the five years ended December 31, 2009:

LOAN PORTFOLIO

	2009	2008	At December 31, 2007 ($ in thousands)	2006	2005
Commercial and industrial loans	$ 1,801,251	$ 1,965,372	$ 1,563,150	$ 1,466,862	$ 1,449,919
Mortgage:					
Construction	440,046	510,519	402,806	526,318	471,560
Residential mortgage	1,943,249	2,269,935	2,063,242	2,106,306	2,083,004
Commercial real estate	3,500,419	3,324,082	2,370,345	2,309,217	2,234,950
Total mortgage loans	5,883,714	6,104,536	4,836,393	4,941,841	4,789,514
Consumer:					
Home equity	566,303	607,700	554,830	571,138	565,960
Credit card	10,025	9,916	10,077	8,764	9,044
Automobile	1,029,958	1,364,343	1,447,838	1,238,145	1,221,525
Other consumer	78,820	91,823	83,933	104,935	94,495
Total consumer loans	1,685,106	2,073,782	2,096,678	1,922,982	1,891,024
Total loans*	$ 9,370,071	$ 10,143,690	$ 8,496,221	$ 8,331,685	$ 8,130,457
As a percent of total loans:					
Commercial and industrial loans	19.2%	19.4%	18.4%	17.6%	17.8%
Mortgage loans	62.8	60.2	56.9	59.3	58.9
Consumer loans	18.0	20.4	24.7	23.1	23.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%

* Total loans are net of unearned discount and deferred loan fees totaling $8.7 million, $4.8 million, $3.5 million, $5.1 million and $6.3 million at December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

During 2009, we extended approximately $1.8 billion in new and renewed credit to quality existing and new customers while maintaining our conservative underwriting standards. However, the overall loan portfolio declined $774 million, or 7.6 percent, to $9.4 billion at December 31, 2009 from $10.1 billion at December 31, 2008. The decrease was primarily due to lower volumes in most loan types, including declines due to lack of consumer demand for automobile loans, business loan contraction during the economic recession, our strict underwriting standards, approximately $382 million in conforming refinanced and new residential mortgage loan originations that were held for sale or sold in the secondary market due to the historically low level of interest rates in 2009, and competition from other financial institutions. We may experience further declines in the loan portfolio during 2010 due to a slow economic recovery cycle or we may maintain certain asset/liability management strategies, including the sale of new residential mortgage loan originations with low fixed interest rates should the yield curve not widen in the near term.

Commercial and industrial loans decreased $164.1 million or 8.4 percent to approximately $1.8 billion in 2009, mainly due to a slowdown in new commercial and industrial loan activity and a moderate decline in usage of lines of credit by our commercial customers. We continue to be very selective in our underwriting of new commercial customers, as well as careful in expanding some current commercial customer relationships due to the economic downturn. Until the economy clearly signals a recovery in our primary markets, we expect nominal growth in our commercial and industrial loan portfolio.

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Total mortgage loans, comprised of construction, residential and commercial real estate loans, decreased $220.8 million, or 3.6 percent during 2009 to $5.9 billion at December 31, 2009, mainly due to decreases in the residential mortgage and construction loan portfolios of $326.7 million and $70.5 million, respectively, partially offset by a $176.3 million increase in commercial real estate loans. The decline in the residential mortgage loan portfolio since the fourth quarter of 2008 continued throughout 2009, as expected by management, based on our secondary market sales of most refinanced loans and new loan originations with low fixed interest rates. Construction loans have also declined since the fourth quarter of 2008 due to normal paydowns on existing loans coupled with lower new loan volume caused by the slowdown in the new and existing housing markets. However, commercial real estate loans increased 5.4 percent during 2009 mainly due to our ability to find new quality lending opportunities made available by the tight credit markets, as well as an uptick in loan demand from existing customers during the fourth quarter of 2009. We believe the growth in commercial real estate loans is well controlled, in large part, due to our conservative underwriting standards which typically require a combination of strong cash flow, substantial equity on the part of the borrower, and personal guarantees.

Consumer loans decreased $388.7 million to approximately $1.7 billion at December 31, 2009 compared to the same period in 2008 primarily due to the declines in the automobile and home equity loan portfolios of $334.4 million and $41.4 million, respectively. We have reported declines in our automobile loan portfolio every quarter since June 30, 2008 mainly due to low consumer demand for new and used vehicles, as well as our move to strengthen our already conservative auto loan underwriting standards in light of the weakened economy. Based on these same underwriting standards, we may choose to be more competitive on interest rates offered for auto loans during 2010 as a measure to reduce excess liquidity derived from maturities in all loan types, while maintaining an acceptable level of interest rate risk for the overall loan portfolio. The decrease in home equity loans is mainly a by-product of refinancing within our residential mortgage portfolio caused by the low level of interest rates during the year ended December 31, 2009. Home equity loans are mainly provided as a convenience to our existing residential mortgage customers and are expected to fluctuate based upon the level of loan volumes within the residential mortgage portfolio.

Much of our lending is in northern and central New Jersey and New York City, with the exception of smaller auto and residential mortgage loan portfolios derived mainly from the neighboring states of Pennsylvania and Connecticut, a portion of our health care equipment leases, other commercial equipment leases and general aviation loans, and Small Business Administration (SBA) loans which totaled only $44.0 million at December 31, 2009. However, efforts are made to maintain a diversified portfolio as to type of borrower and loan to guard against a potential downward turn in any one economic sector. As a result of our lending, this could present a geographic and credit risk if there was a significant broad based downturn of the economy within the region. Although, our primary lending markets have experienced unemployment figures slightly below the national average during 2009, its impact is reflected in our inability to grow the loan portfolio and the portfolio s decline in performance (see the Non-performing Assets section below). We can provide no assurance that our markets will not deteriorate beyond their current levels in the future and cause an increase in the credit risk of our loan portfolio.

The following table reflects the contractual maturity distribution of the commercial and construction loan portfolios as of December 31, 2009:

	One Year or Less	One to Five Years	Over Five Years	Total
		(in thousands)		
Commercial fixed rate	$ 483,439	$ 235,642	$ 43,895	$ 762,976
Commercial adjustable rate	657,874	320,667	59,734	1,038,275
Construction fixed rate	27,078	11,271	1,428	39,777
Construction adjustable rate	272,479	113,424	14,366	400,269
	$ 1,440,870	$ 681,004	$ 119,423	$ 2,241,297

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We may renew loans at maturity when requested by a customer. In such instances, we generally conduct a review which includes an analysis of the borrower s financial condition and, if applicable, a review of the adequacy of collateral. A rollover of the loan at maturity may require a principal reduction or other modified terms.

Non-performing Assets

Non-performing assets include non-accrual loans, other real estate owned (OREO), and other repossessed assets which consist of automobiles, as well as one aircraft at December 31, 2009. Loans are generally placed on non-accrual status when they become past due in excess of 90 days as to payment of principal or interest. Exceptions to the non-accrual policy may be permitted if the loan is sufficiently collateralized and in the process of collection. OREO is acquired through foreclosure on loans secured by land or real estate. OREO and other repossessed assets are reported at the lower of cost or fair value at the time of acquisition and at the lower of fair value, less estimated costs to sell, or cost thereafter. Mindful of the poor operating environment and the higher delinquency rates reported throughout the banking industry, we believe non-performing assets remained at acceptable levels as a percentage of the total loan portfolio as shown in the table below. Although total delinquent loans remained stable in the fourth quarter of 2009, management cannot provide assurance that the levels of non-performing assets will not continue to increase in relation to the U.S. economy.

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The following tables set forth by loan category, non-performing assets and accruing loans on the dates indicated in conjunction with asset quality ratios for Valley:

CREDIT QUALITY

	At December 31,				
	2009	2008	2007	2006	2005
	($ in thousands)				
Accruing past due loans:					
30 to 89 days past due:					
Commercial and industrial	$ 11,949	$ 13,299	$ 5,839	$ 3,346	$ 2,747
Construction	1,834	5,456	12,047	8,402	15,460
Residential mortgage	12,462	12,189	6,486	5,530	8,573
Commercial real estate	4,539	5,005	5,233	8,537	3,258
Consumer	22,835	23,275	16,210	13,166	11,951
Total 30 to 89 days past due	53,619	59,224	45,815	38,981	41,989
90 or more days past due:					
Commercial and industrial	2,191	864	814	321	1,432
Construction		3,156	3,154	683	519
Residential mortgage	1,421	5,323	1,592	625	757
Commercial real estate	250	4,257	1,407	1,381	894
Consumer	1,263	1,957	1,495	765	840
Total 90 or more days past due	5,125	15,557	8,462	3,775	4,442
Total accruing past due loans	$ 58,744	$ 74,781	$ 54,277	$ 42,756	$ 46,431
Non-accrual loans:					
Commercial and industrial	$ 17,424	$ 10,511	$ 10,931	$ 8,989	$ 12,585
Construction	19,905	877	833		
Residential mortgage	22,922	6,195	2,693	1,727	1,389
Commercial real estate	29,844	14,895	15,940	16,198	11,274
Consumer	1,869	595	226	330	546
Total non-accrual loans	91,964	33,073	30,623	27,244	25,794
Other real estate owned	3,869	8,278	609	779	2,023
Other repossessed assets	2,565	4,317	1,466	844	608
Total non-performing assets (NPAs)	$ 98,398	$ 45,668	$ 32,698	$ 28,867	$ 28,425
Troubled debt restructured loans	$ 19,072	$ 7,628	$ 8,363	$ 713	$ 821
Total non-performing loans as a % of loans	0.98%	0.33%	0.36%	0.33%	0.32%
Total NPAs as a % of loans and NPAs	1.04%	0.45%	0.38%	0.35%	0.35%
Total accruing past due and non-accrual loans as a % of total loans	1.61%	1.06%	1.00%	0.84%	0.89%
Allowance for loans losses as a % of non-performing loans	110.90%	281.93%	237.29%	274.25%	291.49%

Non-accrual loans increased $58.9 million to $92.0 million compared to $33.1 million at December 31, 2008. In general, the increasing trend in non-accrual loans is reflective of the current weak economic conditions. The increase in non-accrual commercial loans was partly related to the addition of five credit relationships with an aggregate total of $5.0 million. At December 31, 2009, non-accrual construction loans mainly consist of seven credit relationships with an aggregate total of $17.3 million which have been negatively impacted by the slowdown in the housing markets. The increase in non-accrual commercial real estate loans was mostly related to the addition of five credit relationships with an aggregate total of $14.8 million, or 0.85 percent of the total

commercial real estate portfolio. We believe our commercial real estate delinquencies (which include accruing past due loans and non-accrual loans in the table above) totaling 0.99 percent at December 31, 2009 compared to 1.05 percent at September 30, 2009 currently remain well controlled mainly due to our underwriting standards. Non-accrual residential mortgage loans increased to 1.18 percent of the residential mortgage loan portfolio at December 31, 2009 mainly due to higher unemployment caused by the economic downturn. Although the timing of collection is uncertain, management believes most of the non-accrual loans are well secured and, ultimately, collectible based on, in part, our quarterly valuation of impaired loans. See Asset Quality and Risk Elements section below and Note 5 to the consolidated financial statements for further analysis of the impaired loan portfolio.

If interest on non-accrual loans had been accrued in accordance with the original contractual terms, such interest income would have amounted to approximately $6.5 million, $2.7 million and $2.8 million for the years ended December 31, 2009, 2008, and 2007, respectively; none of these amounts were included in interest income during these periods. Interest income recognized on loans once classified as non-accrual loans totaled $3 thousand, $9 thousand and $45 thousand for the years ended December 31, 2009, 2008, and 2007, respectively. No mortgage loans classified as loans held for sale and carried at fair value were on non-accrual status at December 31, 2009.

OREO decreased $4.4 million to $3.9 million at December 31, 2009 as compared to $8.3 million at December 31, 2008. The decrease was mainly due to the transfer of one office property to fixed assets during the first quarter of 2009, as Valley is currently preparing the property to be used as an additional bank lending and retail service location. Other repossessed assets decreased approximately $1.8 million to $2.6 million at December 31, 2009 from $4.3 million at December 31, 2008, mainly due to a $1.4 million write down of the carrying value of a repossessed aircraft based on our quarterly valuation analysis and the sale of another repossessed aircraft for an immaterial gain during 2009. Other repossessed assets are comprised of automobiles and one aircraft at December 31, 2009.

Loans 90 days or more past due and still accruing, which were not included in the non-performing category, are presented in the above table. These loans ranged from 0.05 percent to 0.15 percent of total loans for the last five years and decreased $10.4 million to $5.1 million, or 0.05 percent of total loans at December 31, 2009 compared to $15.6 million or 0.15 percent at December 31, 2008. The majority of the decrease in loans past due in excess of 90 days and still accruing as compared to December 31, 2008 was due to the migration of several commercial real estate and residential mortgage loans to non-accrual loans. Loans past due 90 days or more and still accruing represent most loan types and are considered to be well secured and in the process of collection. At December 31, 2009, no mortgage loans classified loans held for sale were 90 days or more past due and still accruing interest.

Troubled debt restructured loans, with modified terms and not reported as loans 90 days or more past due and still accruing or non-accrual, are presented in the table above. Restructured loans are loans on which, due to deterioration in the borrower s financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. These restructured loans totaled $19.1 million and $7.6 million at December 31, 2009 and 2008, respectively. Restructured loans consist of five commercial loan relationships and two commercial lease relationships at December 31, 2009. These restructured loans are presently performing under the modified terms, but there can be no assurance that Valley will not incur a loss related to these loans in the future. There were no unfunded loan commitments related to these restructured loans at December 31, 2009.

Total accruing past due loans and non-accrual loans were 1.61 percent of all loans at December 31, 2009 compared with 1.06 percent at December 31, 2008 and include matured loans in the normal process of renewal totaling approximately $1.2 million and $6.9 million at December 31, 2009 and 2008, respectively. We strive to keep loan delinquencies at low levels, however, there is no guarantee that our delinquency levels will not continue to increase due to the current economic conditions.

Although we believe that substantially all risk elements at December 31, 2009 have been disclosed in the categories presented above, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans. As part of the analysis of the loan portfolio, management determined that there were approximately $56.9 million and $26.8 million in potential problem loans at December 31, 2009 and 2008, respectively, which were not classified as non-accrual loans in the non-performing asset table above. Potential problem loans are defined as performing loans for which management has serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in a non-performing loan. Our decision to include performing loans in potential problem loans does not necessarily mean that management expects losses to occur, but that management recognizes potential problem loans carry a higher probability of default. Of the $56.9 million in potential problem loans as of December 31, 2009, approximately $21.3 million is considered at risk after collateral values and guarantees are taken into consideration. At December 31, 2009, the potential problem loans consist of various types of credits, including commercial mortgages, revolving commercial lines of credit and commercial leases.

There can be no assurance that Valley has identified all of its potential problem loans at December 31, 2009.

Asset Quality and Risk Elements

Lending is one of the most important functions performed by Valley and, by its very nature, lending is also the most complicated, risky and profitable part of our business. For commercial loans, construction loans and commercial mortgage loans, a separate credit department is responsible for risk assessment and periodically evaluating overall creditworthiness of a borrower. Additionally, efforts are made to limit concentrations of credit so as to minimize the impact of a downturn in any one economic sector. Our loan portfolio is diversified as to type of borrower and loan. However, loans collateralized by real estate represent approximately 63 percent of total loans at December 31, 2009. Most of the loans collateralized by real estate are in northern and central New Jersey and New York City, presenting a geographical and credit risk if there was a further significant broad-based deterioration in economic conditions within the region. Residential mortgage loans are secured by 1-4 family properties generally located in counties where we have branch presence and counties contiguous thereto (including Pennsylvania). We do provide mortgage loans secured by homes beyond this primary geographic area; however, lending outside this primary area is generally made in support of existing customer relationships. Underwriting policies that are based on Fannie Mae and Freddie Mac guidelines are adhered to for loan requests of conforming and non-conforming amounts. The weighted average loan-to-value ratio of all residential mortgage originations in 2009 was 51 percent while FICO® (independent objective criteria measuring the creditworthiness of a borrower) scores averaged 765.

Consumer loans are comprised of home equity loans, credit card loans, automobile loans and other consumer loans. Home equity and automobile loans are secured loans and are made based on an evaluation of the collateral and the borrower s creditworthiness. In addition to New Jersey, automobile loans are primarily originated in several other states. Due to the level of our underwriting standards applied to all loans, management believes the out of state loans generally present no more risk than those made within New Jersey. However, each loan or group of loans made outside of our primary markets poses some additional geographic risk based upon the economy of that particular region.

Management realizes that some degree of risk must be expected in the normal course of lending activities. Allowances are maintained to absorb such loan losses inherent in the portfolio. The allowance for credit losses and related provision are an expression of management s evaluation of the credit portfolio and economic climate.

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The following table summarizes the relationship among loans, loans charged-off, loan recoveries, the provision for credit losses and the allowance for credit losses on the years indicated:

	Years Ended December 31,				
	2009	2008	2007	2006	2005
	($ in thousands)				
Average loans outstanding	$ 9,705,909	$ 9,386,987	$ 8,261,111	$ 8,262,739	$ 7,637,973
Beginning balance Allowance for credit losses	$ 94,738	$ 74,935	$ 74,718	$ 75,188	$ 65,699
Loans charged-off:					
Commercial and industrial	(16,981)	(6,760)	(5,808)	(6,078)	(1,921)
Construction	(1,197)				
Residential mortgage	(3,488)	(501)	(103)	(644)	(108)
Commercial real estate	(3,110)	(500)	(1,596)	(448)	(307)
Consumer	(17,689)	(14,902)	(7,628)	(4,918)	(5,265)
	(42,465)	(22,663)	(15,135)	(12,088)	(7,601)
Charged-off loans recovered:					
Commercial and industrial	449	627	1,427	528	1,474
Construction					
Residential mortgage	36		17	54	130
Commercial real estate	75	6	254	181	129
Consumer	2,830	2,141	1,779	1,585	1,765
	3,390	2,774	3,477	2,348	3,498
Net charge-offs	(39,075)	(19,889)	(11,658)	(9,740)	(4,103)
Provision charged for credit losses	47,992	28,282	11,875	9,270	4,340
Additions from acquisitions		11,410			9,252
Ending balance Allowance for credit losses	$ 103,655	$ 94,738	$ 74,935	$ 74,718	$ 75,188
Components of allowance for credit losses:					
Allowance for loan losses	$ 101,990	$ 93,244	$ 72,664	$ 74,718	$ 75,188
Reserve for unfunded letters of credit*	1,665	1,494	2,271		
Allowance for credit losses	$ 103,655	$ 94,738	$ 74,935	$ 74,718	$ 75,188
Components of provision for credit losses:					
Provision for loan losses	$ 47,821	$ 29,059	$ 12,751	$ 9,270	$ 4,340
Provision for unfunded letters of credit	171	(777)	(876)		
Provision for credit losses	$ 47,992	$ 28,282	$ 11,875	$ 9,270	$ 4,340
Ratio of net charge-offs during the period to average loans outstanding during the period	0.40%	0.21%	0.14%	0.12%	0.05%
Allowance for loan losses as a % of loans	1.09%	0.92%	0.86%	0.90%	0.92%
Allowance for credit losses as a % of loans	1.11%	0.93%	0.88%	0.90%	0.92%

*

Effective January 1, 2007, Valley transferred $3.1 million of the allowance for loan losses related to commercial lending letters of credit to other liabilities.

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The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit comm