OCEANFIRST FINANCIAL CORP
Form 10-Q
August 09, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2011**

¨ **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 001-11713**

# OceanFirst Financial Corp.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **22-3412577** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **975 Hooper Avenue, Toms River, NJ** | **08754-2009** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (732) 240-4500**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨.

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ¨ | Accelerated Filer | x |
| Non-accelerated Filer | ¨ | Smaller Reporting Company | ¨ |

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

As of August 4, 2011, there were 18,846,122 shares of the Registrant s Common Stock, par value $.01 per share, outstanding.

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**OceanFirst Financial Corp.**

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

| **FINANCIAL SUMMARY** (dollars in thousands, except per share amounts) | At or for the Quarter Ended June 30, 2011 | December 31, 2010 | June 30, 2010 |
|---|---|---|---|
| **SELECTED FINANCIAL CONDITION DATA:** | | | |
| Total assets | $ 2,239,011 | $ 2,251,330 | $ 2,219,682 |
| Loans receivable, net | 1,617,812 | 1,660,788 | 1,667,472 |
| Deposits | 1,639,230 | 1,663,968 | 1,539,972 |
| Stockholders equity | 213,367 | 201,251 | 194,828 |
| **SELECTED OPERATING DATA:** | | | |
| Net interest income | 19,645 | 18,880 | 19,697 |
| Provision for loan losses | 2,200 | 2,000 | 2,200 |
| Other income | 3,897 | 4,527 | 3,598 |
| Operating expenses | 13,385 | 13,926 | 13,260 |
| Net income | 5,103 | 5,784 | 4,951 |
| Diluted earnings per share | 0.28 | 0.32 | 0.27 |
| **SELECTED FINANCIAL RATIOS:** | | | |
| Stockholders equity per common share | 11.32 | 10.69 | 10.35 |
| Cash dividend per share | 0.12 | 0.12 | 0.12 |
| Stockholders equity to total assets | 9.53% | 8.94% | 8.78% |
| Return on average assets (1) | 0.90 | 1.02 | 0.90 |
| Return on average stockholders equity (1) | 9.87 | 11.54 | 10.54 |
| Average interest rate spread | 3.56 | 3.39 | 3.65 |
| Net interest margin | 3.67 | 3.52 | 3.78 |
| Operating expenses to average assets (1) | 2.37 | 2.46 | 2.42 |
| Efficiency ratio | 56.86 | 59.50 | 56.92 |
| **ASSET QUALITY:** | | | |
| Non-performing loans | $ 46,714 | $ 37,537 | $ 29,213 |
| Non-performing assets | 49,521 | 39,832 | 31,820 |
| Non-performing loans as a percent of total loans receivable | 2.85% | 2.23% | 1.73% |
| Non-performing assets as a percent of total assets | 2.21 | 1.77 | 1.43 |
| Allowance for loan losses as a percent of total loans receivable | 1.31 | 1.17 | 1.02 |
| Allowance for loan losses as a percent of total non-performing loans | 45.93 | 52.48 | 58.69 |

(1) Ratios are annualized

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**Summary**

OceanFirst Financial Corp. is the holding company for OceanFirst Bank (the Bank ), a community bank serving Ocean and Monmouth Counties in New Jersey. The term the Company refers to OceanFirst Financial Corp., OceanFirst Bank and all of the Bank s subsidiaries on a consolidated basis. The Company s results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from loan sales, loan servicing, loan originations, merchant credit card services, deposit accounts, the sale of investment products, trust and asset management services and other fees. The Company s operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, data processing, and federal deposit insurance. The Company s results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Throughout 2010, and continuing into 2011, short-term interest rates remained low and the interest rate yield curve was unusually steep. The interest rate environment has generally had a positive impact on the Company s results of operations and net interest margin. Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. In late 2010, the Company s net interest margin contracted due to the investment of strong deposit flows into interest-earning deposits and investment securities at modest net interest spread. Additionally, high loan refinance volume caused yields on loans and mortgage-backed securities to reset downward. Although the net interest margin expanded in the first and second quarters of 2011, as compared to the fourth quarter of 2010, the net interest margin remains below the levels of the corresponding prior year quarter. The expansion of the net interest margin compared to the fourth quarter of 2010 is primarily due to a decrease in the cost of transaction deposits. In addition to the interest rate environment, the Company is dependent upon national and local economic conditions. The overall economy remains weak with continued high unemployment coupled with concern surrounding the housing market. These economic conditions have had an adverse impact on the Company s results of operations as the provision for loan losses remains elevated compared to historical levels.

Highlights of the Company s financial results for the three and six months ended June 30, 2011 were as follows:

Total assets decreased to $2.239 billion at June 30, 2011, from $2.251 billion at December 31, 2010. Loans receivable, net decreased $43.0 million, or 2.6%, at June 30, 2011, as compared to December 31, 2010 primarily due to sales and prepayments of one-to-four family loans and limited loan origination volume. Investment securities available for sale increased by $41.2 million, to $133.1 million at June 30, 2011, from $91.9 million at December 31, 2010.

Deposits decreased by $24.7 million, or 1.5%, at June 30, 2011, as compared to December 31, 2010. The decline was concentrated in time deposits, which decreased $22.8 million, as the Bank continued to moderate its pricing for this product. At June 30, 2011, core deposits, defined as all deposits excluding time deposits, a key focus for the Company, represented 84.0% of total deposits.

Diluted earnings per share increased 3.7%, to $0.28 for the quarter ended June 30, 2011, from $0.27 for the corresponding prior year quarter. For the six months ended June 30, 2011 diluted earnings per share increased 9.8%, to $0.56, as compared to $0.51 for the corresponding prior year period.

The net interest margin expanded on a linked quarter basis to 3.67% for the three months ended June 30, 2011, as compared to 3.60% for the three months ended March 31, 2011.

The provision for loan losses was $2.2 million and $3.9 million, respectively, for the three and six months ended June 30, 2011, as compared to $2.2 million and $4.4 million, respectively, for the corresponding prior year periods. The provision for loan losses exceeded net loan charge-offs of $1.2 million and $2.1 million, respectively, for the three and six months ended June 30, 2011. The Company s non-performing loans totaled $46.7 million at June 30, 2011, an increase from $37.5 million at December 31, 2010 primarily due to the addition of one large commercial real estate relationship and an increase in non-performing one-to-four family loans.

The Company remains well-capitalized with a tangible common equity ratio of 9.53%. Return on average stockholders equity was 9.87% and 9.99%, respectively, for the three and six months ended June 30, 2011, as compared to 10.54% and 10.08%, respectively, for the corresponding prior year periods generally resulting from the Company s desire to continue to build equity.

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**Analysis of Net Interest Income**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to the Company for the three and six months ended June 30, 2011 and 2010. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

| | FOR THE THREE MONTHS ENDED JUNE 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| | (dollars in thousands) | | | | | |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits and short-term investments | $ 14,923 | $ 8 | .21% | $ | $ | % |
| Investment securities (1) | 141,190 | 343 | .97 | 55,975 | 141 | 1.01 |
| FHLB stock | 18,014 | 195 | 4.33 | 24,189 | 255 | 4.22 |
| Mortgage-backed securities (1) | 336,464 | 2,667 | 3.17 | 360,030 | 3,185 | 3.54 |
| Loans receivable, net (2) | 1,628,701 | 21,024 | 5.16 | 1,643,066 | 22,226 | 5.41 |
| Total interest-earning assets | 2,139,292 | 24,237 | 4.53 | 2,083,260 | 25,807 | 4.96 |
| Non-interest-earning assets | 116,716 | | | 110,944 | | |
| Total assets | $ 2,256,008 | | | $ 2,194,204 | | |
| **Liabilities and Stockholders Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | $ 1,256,710 | 1,504 | .48 | $ 1,031,378 | 2,063 | .80 |
| Time deposits | 266,868 | 1,189 | 1.78 | 305,179 | 1,417 | 1.86 |
| Total | 1,523,578 | 2,693 | .71 | 1,336,557 | 3,480 | 1.04 |
| Borrowed funds | 374,363 | 1,899 | 2.03 | 530,071 | 2,630 | 1.98 |
| Total interest-bearing liabilities | 1,897,941 | 4,592 | .97 | 1,866,628 | 6,110 | 1.31 |
| Non-interest-bearing deposits | 139,709 | | | 126,745 | | |
| Non-interest-bearing liabilities | 11,562 | | | 12,900 | | |
| Total liabilities | 2,049,212 | | | 2,006,273 | | |
| Stockholders equity | 206,796 | | | 187,931 | | |
| Total liabilities and stockholders equity | $ 2,256,008 | | | $ 2,194,204 | | |
| Net interest income | | $ 19,645 | | | $ 19,697 | |
| Net interest rate spread (3) | | | 3.56% | | | 3.65% |