OCEANFIRST FINANCIAL CORP
Form 10-Q
November 07, 2014
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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 September 30, 2014

¨ **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	**08753**
(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 October 31, 2014 there were 17,010,914 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 September 30, 2014	June 30, 2014	September 30, 2013
SELECTED FINANCIAL CONDITION DATA:			
Total assets	$ 2,308,701	$ 2,329,141	$ 2,286,288
Loans receivable, net	1,632,026	1,631,819	1,522,425
Deposits	1,781,227	1,705,510	1,768,914
Stockholders equity	218,650	215,841	213,769
SELECTED OPERATING DATA:			
Net interest income	18,100	18,159	17,544
Provision for loan losses	1,000	275	700
Other income	5,304	4,847	4,436
Operating expenses	14,449	14,847	13,654
Net income	5,165	5,117	4,968
Diluted earnings per share	0.31	0.30	0.29
SELECTED FINANCIAL RATIOS:			
Stockholders equity per common share	12.77	12.59	12.30
Cash dividend per share	0.12	0.12	0.12
Stockholders equity to total assets	9.47%	9.27%	9.35%
Return on average assets (1)	0.88	0.90	0.86
Return on average stockholders equity (1)	9.50	9.45	9.17
Average interest rate spread	3.18	3.28	3.11
Net interest margin	3.27	3.35	3.20
Operating expenses to average assets (1)	2.48	2.60	2.36
Efficiency ratio	61.74	64.54	62.12
ASSET QUALITY:			
Non-performing loans	$ 18,392	$ 40,699	$ 41,565
Non-performing assets	24,858	45,667	45,824
Allowance for loan losses as a percent of total loans receivable	0.98%	1.26%	1.35%
Allowance for loan losses as a percent of total non-performing loans	88.68	51.44	50.25
Non-performing loans as a percent of total loans receivable	1.11	2.44	2.68
Non-performing assets as a percent of total assets	1.08	1.96	2.00
Wealth Management			
Assets under administration	$ 224,421	$ 229,289	$ 211,976

(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, Monmouth and Middlesex 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 bankcard services, wealth management services, deposit accounts, the sale of investment products, loan originations, loan servicing, loan sales, and other fees. The Company s operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, federal deposit insurance, data processing and general and administrative expenses. 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.

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. The Company s net interest margin has expanded over the prior year periods as the Company has succeeded in growing commercial loans resulting in a shift in asset mix from lower-yielding interest-earning deposits and securities into higher-yielding loans. The net interest margin also benefited from the prepayment of $159.0 million of Federal Home Loan Bank (FHLB) advances in the fourth quarter of 2013 and from the rising interest rate environment in 2013 which steepened the yield curve, slowed loan refinance activity and improved yields on newly originated loans and investments. More recently, the net interest margin for the quarter ended September 30, 2014 decreased slightly from the prior linked quarter due to a temporary increase in low yielding interest-earning deposits and the extension of overnight borrowings into longer-term borrowings. Based upon current economic conditions, the Federal Reserve has indicated that it anticipates that short-term interest rates will remain at current levels for a considerable time, especially if projected inflation continues to run below the 2% longer-run goal, and provided that longer-term inflation expectations remain well-anchored. Additionally, the Federal Reserve concluded its bond buying program in October 2014. The increase in longer-term rates and related reduction in loan refinance activity has caused a decrease in the Company s loan sale volume and therefore lower income from the net gain on the sale of loans. More recently, worldwide economic and geopolitical uncertainty has caused longer-term interest rates to decline, which may have an adverse impact on the Company s net interest margin in future periods.

In addition to the interest rate environment, the Company s results are affected by economic conditions. Recent economic indicators point to some improvement in the U.S. economy, which expanded modestly in 2013 and continues to show modest growth again in 2014. Labor market conditions improved as the national and local unemployment rates in the first nine months of 2014 both decreased compared to prior year levels. Despite these signs, the economic recovery remains modest.

Highlights of the Company s financial results for the three and nine months ended September 30, 2014 were as follows:

On October 23, 2014, the Company announced a $0.01 increase in the quarterly cash dividend, to $0.13 per share.

On September 30, 2014, the Company completed the bulk sale of certain non-performing residential mortgage loans with an aggregate carrying value of $23.1 million, for net cash consideration of $18.7 million. The sale resulted in a total loan charge-off of $5.0 million, including uncollected loan escrow receivables, through the Allowance for Loan Losses in the quarter ended September 30, 2014. The sale represented 56.9% of the Company s reported non-performing loans at June 30, 2014. The non-performing loan sale improves the credit risk profile of the loan portfolio and is expected to increase net interest income and reduce foreclosure-related expenses, lower overhead costs and reduce the FDIC insurance assessment in future periods.

Total assets increased to $2.309 billion at September 30, 2014, from $2.250 billion at December 31, 2013. Loans receivable, net increased $90.6 million at September 30, 2014, as compared to December 31, 2013 primarily due to growth in commercial loans of $90.0 million.

Net income for the three months ended September 30, 2014 was $5.2 million, or $0.31 per diluted share, as compared to net income of $5.0 million, or $0.29 per diluted share for the corresponding prior year period. Net income benefited from improved net interest income, higher other income primarily relating to gains on the sale of securities, partly offset by increased operating expenses and higher loan loss provision. Additionally earnings per share benefited from a reduction in average shares outstanding.

Net interest income for the three months ended September 30, 2014 increased to $18.1 million, as compared to $17.5 million in the same prior year period, reflecting a higher net interest margin. The net interest margin increased to 3.27% for the three months ended September 30, 2014, as compared to 3.20% for the corresponding prior year period.

The provision for loan losses for the three months ended September 30, 2014 increased to $1.0 million, as compared to $700,000 in the same prior year period, partly due to the charge-off related to the bulk sale of non-performing loans.

Other income increased to $5.3 million for the three months ended September 30, 2014, as compared to $4.4 million in the same prior year period. The increase was due to higher gain on sale of investment securities, increased fees and service charges and a reduction in losses from other real estate operations, partly offset by lower gain on sales of loans. Operating expenses increased $795,000 primarily due to personnel additions in revenue producing areas and higher professional fees.

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The Company remains well-capitalized with a tangible common equity ratio of 9.47%. On July 24, 2014, the Company announced the completion of its 2012 common stock repurchase program and the subsequent authorization of the Board of Directors to repurchase up to 5% of the Company s outstanding common stock, or 867,923 shares. At September 30, 2014, there were 835,059 shares available for repurchase.

Return on average stockholders equity was 9.50% for the three months ended September 30, 2014, as compared to 9.17% for the corresponding prior year period.

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 nine months ended September 30, 2014 and 2013. 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 SEPTEMBER 30,					
	2014			2013		
	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	$ 56,523	$ 17	0.12%	$ 46,311	$ 16	0.14%
Securities (1) and FHLB stock	529,116	2,181	1.65	631,016	2,565	1.63
Loans receivable, net (2)	1,631,680	17,944	4.40	1,519,002	17,403	4.58
Total interest-earning assets	2,217,319	20,142	3.63	2,196,329	19,984	3.64
Non-interest-earning assets	117,509			115,016		
Total assets	$ 2,334,828			$ 2,311,345		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Transaction deposits	$ 1,279,313	262	0.08	$ 1,317,181	387	0.12
Time deposits	213,627	748	1.40	211,584	720	1.36
Total	1,492,940	1,010	0.27	1,528,765	1,107	0.29
Borrowed funds	325,897	1,032	1.27	329,281	1,333	1.62

Total interest-bearing liabilities	1,818,837	2,042	0.45	1,858,046	2,440	0.53
Non-interest-bearing deposits	279,144			219,723		
Non-interest-bearing liabilities	19,436			16,827		
Total liabilities	2,117,417			2,094,596		
Stockholders equity	217,411			216,749		
Total liabilities and stockholders equity	$ 2,334,828			$ 2,311,345		
Net interest income		$ 18,100			$ 17,544	
Net interest rate spread (3)			3.18%			3.11%
Net interest margin (4)			3.27%			3.20%

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
	2014			2013		
	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	$ 37,572	$ 27	0.10%	$ 56,142	$ 61	0.14%
Securities (1) and FHLB stock	547,983	7,038	1.71	615,211	7,642	1.66
Loans receivable, net (2)	1,592,864	52,720	4.41	1,514,693	52,493	4.62
Total interest-earning assets	2,178,419	59,785	3.66	2,186,046	60,196	3.67
Non-interest-earning assets	117,313			117,516		
Total assets	$ 2,295,732			$ 2,303,562		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Transaction deposits	$ 1,286,412	873	0.09	$ 1,322,095	1,389	0.14
Time deposits	214,821	2,219	1.38	216,198	2,218	1.37
Total	1,501,233	3,092	0.27	1,538,293	3,607	0.31
Borrowed funds	313,519	2,369	1.01	325,251	4,312	1.77
Total interest-bearing liabilities	1,814,752	5,461	0.40	1,863,544	7,919	0.57
Non-interest-bearing deposits	247,469			204,568		
Non-interest-bearing liabilities	16,895			16,463		
Total liabilities	2,079,116			2,084,575		
Stockholders equity	216,616			218,987		
Total liabilities and stockholders equity	$ 2,295,732			$ 2,303,562		
Net interest income		$ 54,324			$ 52,277	
Net interest rate spread (3)			3.26%			3.10%
Net interest margin (4)			3.33%			3.19%

(1) Amounts are recorded at average amortized cost.
(2)

Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.

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

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

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Comparison of Financial Condition at September 30, 2014 and December 31, 2013

Total assets increased by $59.0 million to $2.309 billion at September 30, 2014, from $2.250 billion at December 31, 2013. Securities in the aggregate, decreased by $31.9 million, to $507.5 million at September 30, 2014, as compared to $539.4 million at December 31, 2013. Loans receivable, net, increased by $90.6 million, an annualized growth rate of 7.8%, to $1.632 billion at September 30, 2014 from $1.542 billion at December 31, 2013, primarily due to growth in commercial loans of $90.0 million. The growth in commercial loans was primarily due to the strategic expansion of the commercial lending group.

Deposits increased by $34.5 million, to $1.781 billion at September 30, 2014, from $1.747 billion at December 31, 2013. To fund loan growth, FHLB advances increased $30.2 million, to $205.2 million at September 30, 2014, from $175.0 million at December 31, 2013.

Stockholders equity increased to $218.7 million at September 30, 2014, as compared to $214.4 million at December 31, 2013. Net income for the period was partly offset by the repurchase of 334,630 shares of common stock for $5.6 million (average cost per share of $16.62) and the cash dividend on common stock of $6.1 million. At September 30, 2014, there were 835,059 shares available for repurchase under the stock repurchase program adopted in July of 2014.

Comparison of Operating Results for the Three and Nine months Ended September 30, 2014 and September 30, 2013

General

Net income for the three and nine months ended September 30, 2014 increased to $5.2 million and $15.0 million, respectively, or $0.31 per diluted share and $0.89 per diluted share, respectively, as compared to net income of $5.0 million and $14.4 million, respectively, or $0.29 per diluted share and $0.84 per diluted share, respectively, for the corresponding prior year periods. The increases were primarily due to improved net interest income, higher other income primarily relating to gains on the sale of securities, partly offset by increased operating expenses. Net income for the nine months ended September 30, 2014 also benefited from a reduction in the provision for loan losses. Additionally, earnings per share for both the three and nine months ended September 30, 2014 benefited from the reduction in average shares outstanding.

Interest Income

Interest income for the three months ended September 30, 2014 increased to $20.1 million, as compared to $20.0 million for the corresponding prior year period. Despite a 1 basis point decline in the yield on average interest-earning assets for the three months ended September 30, 2014, as compared to the corresponding prior year period, the asset yield still benefited from a shift in the mix of interest-earning assets as average loans receivable, net increased $112.7 million for the three months ended September 30, 2014, while average interest-earning securities decreased $101.9 million, as compared to the same prior year period. Overall, average interest-earning assets increased $21.0 million for the three months ended September 30, 2014, as compared to the same prior year period. Interest income for the nine months ended September 30, 2014 decreased to $59.8 million, as compared to $60.2 million for the corresponding prior year period. The yield on average interest-earning assets also decreased by 1 basis point for the nine months ended September 30, 2014, as compared to the corresponding prior year period, however, the asset yield still benefited from a shift in the mix of interest-earning assets as average loans receivable, net increased $78.2 million for the nine months ended September 30, 2014, while average interest-earning securities decreased $67.2 million, as compared to the same prior year period. For the nine months ended September 30, 2014, average interest-earning assets decreased

$7.6 million as compared to the same prior year period.

Interest Expense

Interest expense for the three and nine months ended September 30, 2014 was $2.0 million and $5.5 million, respectively, as compared to $2.4 million and $7.9 million, respectively, in the corresponding prior year periods. The cost of average interest-bearing liabilities decreased to 0.45% and 0.40%, respectively, for the three and nine months ended September 30, 2014, as compared to 0.53% and 0.57%, respectively, in the same prior year periods. The decrease was partly due to the prepayment of $159.0 million of FHLB advances with a weighted average cost of 2.31% in the fourth quarter of 2013. Average interest-bearing liabilities decreased by $39.2 million and $48.8 million, respectively, for the three and nine months ended September 30, 2014 primarily due to a decline in average interest-bearing deposits of $35.8 million and $37.1 million, respectively. This interest-bearing funding was partly replaced by an increase of $59.4 million and $42.9 million, respectively, in average non-interest-bearing deposits for the three and nine months ended September 30, 2014, as compared to the same prior year periods.

Net Interest Income

Net interest income for the three and nine months ended September 30, 2014 increased to $18.1 million and $54.3 million, respectively, as compared to $17.5 million and $52.3 million, respectively, in the same prior year periods, reflecting a higher net interest margin. The net interest margin increased to 3.27% and 3.33%, respectively, for the three and nine months ended September 30, 2014, from 3.20% and 3.19%, respectively, in the same prior year periods primarily due to a reduction in the cost of average interest-bearing liabilities.

Provision for Loan Losses

For the three and nine months ended September 30, 2014, the provision for loan losses was $1.0 million and $1.8 million, respectively, as compared to $700,000 and $2.6 million, respectively, for the corresponding prior year periods. The increase for the three months ended September 30, 2014, as compared to the prior year quarter was due to the non-performing loan sale which resulted in a charge-off of $5.0 million on these loans. Also, for the three months ended September 30, 2014, there were additional net charge-offs of $654,000 on loans retained in the loan portfolio as compared to net charge-offs of $633,000 in the prior year quarter. In evaluating the level of the Allowance for Loan Losses at September 30, 2014 and related provision for loan losses, the Company considered the improved risk profile of the loan portfolio in light of the significant reduction in residential non-performing loans from the bulk sale and an improvement in the collectability of several commercial real estate loans. Non-performing loans amounted to $18.4 million at September 30, 2014, a decrease of $22.3 million, or 54.8%, as compared to June 30, 2014 and $27.0 million, or 59.5%, as compared to December 31, 2013. Non-performing loans as a percent of total loans receivable decreased to 1.11% at September 30, 2014, as compared to 2.44% at June 30, 2014 and 2.88% at December 31, 2013. Additionally, the allowance for loan losses as a percent of total non-performing loans increased to 88.68% at September 30, 2014, from 51.44% at June 30, 2014 and 46.14% at December 31, 2013.

Other Income

For the three and nine months ended September 30, 2014, other income increased to $5.3 million and $14.0 million, respectively, as compared to $4.4 million and $12.4 million, respectively, in the same prior year periods. For the three and nine months ended September 30, 2014, fees and service charges increased $280,000 and $862,000, respectively, as compared to the same prior year periods primarily due to a revised fee and product structure. For the three and nine months ended September 30, 2014, the net gain on the sale of loans decreased to $226,000 and $577,000, respectively, as compared to $316,000 and $877,000, respectively, in the same prior year periods. The gain on the sale of loans for the nine months ended September 30, 2013 was adversely impacted by a provision of $975,000 added to the reserve for repurchased loans and loss sharing obligations, as compared to no provision in the current period. The prior year provision was related to loans sold to the FHLB as part of its Mortgage Partnership Finance program. Compared to prior periods, the gain on sale of loans was adversely impacted by reductions in loans sold (excluding the bulk sale of non-performing loans) to $9.8 million and $31.0 million, respectively, for the three and nine months ended September 30, 2014, as compared to $19.2 million and $88.3 million, respectively, for the corresponding prior year periods, as increasing longer-term interest rates reduced one-to-four family loan refinance activity. For both the three and nine months ended September 30, 2014, the Company recognized gains of $591,000 and $938,000, respectively, on the sale of equity securities, as compared to gains of $0 and $42,000, respectively, in the corresponding prior year periods. For the three months ended September 30, 2014, the net loss from real estate operations decreased to $24,000 as compared to a net loss of $188,000 in the same prior year period. For the nine months ended September 30, 2014, the net loss from real estate operations increased to $164,000, as compared to a net loss of $112,000 in the same prior year period.

Operating Expenses

Operating expenses increased to $14.4 million and $43.4 million, respectively, for the three and nine months ended September 30, 2014, as compared to $13.7 million and $39.8 million, respectively, in the same prior year periods. Compensation and employee benefits expense increased $349,000 and $2.5 million, respectively, for the three and nine months ended September 30, 2014, as compared to the same prior year periods, primarily due to personnel additions in revenue producing areas. Additionally, compensation and employee benefits expense for the nine months ended September 30, 2014 includes $196,000 in non-recurring severance related expenses due to the Company s second quarter strategic decision to improve efficiency in the residential mortgage loan area. For the three months ended September 30, 2014, professional fees increased by $346,000 as compared to the corresponding prior year period.

Provision for Income Taxes

The provision for income taxes was $2.8 million and $8.1 million, respectively, for the three and nine months ended September 30, 2014, as compared to $2.7 million and $7.8 million, respectively, for the same prior year periods. The effective tax rate was 35.1%, for both the three and nine months ended September 30, 2014, as compared to 34.9% and 35.2% in the same prior year periods.

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Liquidity and Capital Resources

The Company s primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including various lines of credit.

At September 30, 2014 the Company had $500,000 in outstanding overnight borrowings from the FHLB compared to $35.0 million outstanding at December 31, 2013. The Company periodically utilizes overnight borrowings to fund short-term liquidity needs. The Company had total FHLB borrowings, including the overnight borrowings, of $205.2 million and $175.0 million, respectively, at September 30, 2014 and December 31, 2013.

The Company s cash needs for the nine months ended September 30, 2014 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, proceeds from maturities of investment securities, the sale of investment securities available-for-sale, deposit growth and increased total borrowings. The cash was principally utilized for loan originations and the purchase of investment and mortgage-backed securities. The Company s cash needs for the nine months ended September 30, 2013 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, proceeds from maturities of investment securities and deposit growth. The cash was principally utilized for loan originations, the purchase of investment and mortgage-backed securities and to reduce total borrowings.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments. At September 30, 2014, outstanding undrawn lines of credit totaled $290.3 million; outstanding commitments to originate loans totaled $86.2 million; and outstanding commitments to sell loans totaled $5.6 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled $114.2 million at September 30, 2014. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Company has a detailed contingency funding plan and comprehensive reporting of funding trends on a monthly and quarterly basis which is reviewed by management. Management also monitors cash on a daily basis to determine the liquidity needs of the Bank. Additionally, management performs multiple liquidity stress test scenarios on a quarterly basis. The Bank continues to maintain significant liquidity under all stress scenarios.

Under the Company s common stock repurchase program, shares of OceanFirst Financial Corp. common stock may be purchased in the open market and through other privately-negotiated transactions, from time-to-time, depending on market conditions. The repurchased shares are held as treasury stock for general corporate purposes. For the nine months ended September 30, 2014, the Company repurchased 334,630 shares of common stock at a total cost of $5.6 million, compared with repurchases of 533,018 shares at a cost of $8.1 million for the nine months ended September 30, 2013. At September 30, 2014, there were 835,059 shares available to be repurchased under the stock repurchase program adopted July of 2014.

Cash dividends on common stock declared and paid during the first nine months of 2014 were $6.1 million, as compared to $6.2 million in the same prior year period. On October 22, 2014, the Board of Directors declared a quarterly cash dividend of thirteen cents ($0.13) per common share, an increase of $0.01 per share, or 8.3%, compared to the quarter ended June 30, 2014. The dividend is payable on November 14, 2014 to stockholders of record at the close of business on November 3, 2014.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the banking subsidiary and the issuance of preferred and common stock and long-term debt. For the nine months ended September 30, 2014, the Company received dividend payments of $12.0 million from the Bank. The Company s ability to continue to pay dividends will be largely dependent upon capital distributions from the Bank, which may be adversely affected by capital constraints imposed by the applicable regulations. The Company cannot predict whether the Bank will be permitted under applicable regulations to pay a dividend to the Company. If the Bank is unable to pay dividends to the Company, the Company may not have the liquidity necessary to pay a dividend in the future or pay a dividend at the same rate as historically paid, or be able to meet current debt obligations. At September 30, 2014, OceanFirst Financial Corp. held $23.6 million in cash and $633,000 in investment securities available-for-sale.

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As of September 30, 2014, the Bank exceeded all regulatory capital requirements as follows (in thousands):

	Actual		Required	
	Amount	Ratio	Amount	Ratio
Tangible	$ 221,965	9.57%	$ 34,804	1.50%
Tier 1 leverage	221,965	9.57	92,810	4.00
Tier 1 risk-based	221,965	14.25	62,290	4.00
Total risk-based	238,325	15.30	124,581	8.00

The Bank is considered a well-capitalized institution under the Prompt Corrective Action Regulations.

In July 2013 the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on non-accrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, deferred tax assets and minority interests. The rule limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

At September 30, 2014, the Company maintained tangible common equity of $218.7 million, for a tangible common equity to assets ratio of 9.47%.

Off-Balance-Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customers requests for funding. These financial instruments and commitments include undrawn lines of credit and commitments to extend credit. The Company also has outstanding commitments to sell loans amounting to $5.6 million.

The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2014 (in thousands):

Contractual Obligation	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt Obligations	$ 294,153	$ 81,957	$ 40,000	$ 149,696	$ 22,500
Commitments to Fund Undrawn Lines of Credit	290,278	290,278			
Commitments to Originate Loans	86,153	86,153			

Commitments to fund undrawn lines of credit and commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company s exposure to credit risk is represented by the contractual amount of the instruments.

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Non-Performing Assets

The following table sets forth information regarding the Company s non-performing assets consisting of non-performing loans and other real estate owned. It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Non-performing loans:		
Real estate one-to-four family	$ 3,759	$ 28,213
Commercial real estate	12,713	12,304
Consumer	1,811	4,328
Commercial and industrial	109	515
Total non-performing loans	18,392	45,360
Other real estate owned	6,466	4,345
Total non-performing assets	$ 24,858	$ 49,705
Delinquent loans 30-89 days	$ 10,407	$ 9,147
Allowance for loan losses as a percent of total loans receivable	0.98%	1.33%
Allowance for loan losses as a percent of total non-performing loans	88.68	46.14
Non-performing loans as a percent of total loans receivable	1.11	2.88
Non-performing assets as a percent of total assets	1.08	2.21

The decrease in non-performing loans was due to the bulk sale of most non-performing residential and consumer mortgage loans with an aggregate carrying value of $23.1 million. The sale represented 56.9% and 51.0%, respectively, of the Company s reported non-performing loans at June 30, 2014 and December 31, 2013. Included in the non-performing loan total at September 30, 2014 was $2.6 million of troubled debt restructured loans, as compared to $9.7 million of troubled debt restructured loans at June 30, 2014 and December 31, 2013. Non-performing loans are concentrated in commercial real estate, which comprise 69.1% of the total at September 30, 2014.

The Company classifies loans and other assets in accordance with regulatory guidelines as follows (in thousands):

	September 30, 2014	December 31, 2013
Special Mention	$ 16,176	$ 5,843
Substandard	35,384	66,246
Doubtful	4	859

The largest non-performing and substandard loan relationship consists of two commercial real estate loans to a hotel, golf and banquet facility located in New Jersey for $6.5 million, criticized due to delinquent payments, continual losses and covenant violations. The largest Special Mention loan at September 30, 2014 is a $4.5 million commercial real estate loan to a single borrower operating several fitness/health club facilities who is current as to payments. The borrower has filed Chapter XI bankruptcy relating to another bank s legal proceedings on an unrelated property.

Critical Accounting Policies

Note 1 to the Company s Audited Consolidated Financial Statements for the year ended December 31, 2013 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K), as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or fair value. Policies with respect to the methodologies used to determine the allowance for loan losses, the reserve for repurchased loans and loss sharing obligations, and the valuation of Mortgage Servicing Rights and judgments regarding securities impairment are the most critical accounting policies because they are important to the presentation of the Company s financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

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Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995 which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, will, should, may, view, oppor similar expressions or expressions of confidence. The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, levels of unemployment in the Bank s lending area, real estate market values in the Bank s lending area, future natural disasters and increases to flood insurance premiums, the level of prepayments on loans and mortgage-backed securities, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company s market area and accounting principles and guidelines. These risks and uncertainties are further discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 and subsequent securities filings and should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business, and Item 1A, Risk Factors, of the Company s 2013 Form 10-K and Item 1A, Risk Factors, of this 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s interest rate sensitivity is monitored through the use of an interest rate risk (IRR) model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at September 30, 2014, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown.

At September 30, 2014, the Company s one-year gap was negative 1.3% as compared to negative 10.8% at December 31, 2013. The change from December 31, 2013 was primarily due to the term extension of new and existing FHLB Advances.

At September 30, 2014	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total
(dollars in thousands)						
Interest-earning assets: (1)						
Interest-earning deposits and short-term investments	$ 2,792	$	$	$	$	$ 2,792
Investment securities	67,005	36,243	62,080	11,581	1,229	178,138
Mortgage-backed securities	43,629	36,632	89,281	78,239	93,730	341,511
FHLB stock					14,785	14,785
Loans receivable (2)	299,755	357,826	433,842	288,203	268,375	1,648,001

Total interest-earning assets	413,181	430,701	585,203	378,023	378,119	2,185,227
Interest-bearing liabilities:						
Money market deposit accounts	8,906	13,984	31,177	23,989	32,665	110,721
Savings accounts	66,575	22,561	49,817	37,706	117,400	294,059
Interest-bearing checking accounts	485,393	55,024	103,692	84,527	159,372	888,008
Time deposits	42,467	71,732	54,568	40,730	1,806	211,303
FHLB advances	20,787	868	37,374	146,167		205,196
Securities sold under agreements to repurchase and other borrowings	83,957		5,000			88,957
Total interest-bearing liabilities	708,085	164,169	281,628	333,119	311,243	1,798,244
Interest sensitivity gap (3)	$ (294,904)	$ 266,532	$ 303,575	$ 44,904	$ 66,876	$ 386,983
Cumulative interest sensitivity gap	$ (294,904)	$ (28,372)	$ 275,203	$ 320,107	$ 386,983	$ 386,983
Cumulative interest sensitivity gap as a percent of total interest-earning assets	(13.50)%	(1.30)%	12.59%	14.65%	17.71%	17.71%

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.

(2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.

(3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

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Additionally, the table below sets forth the Company s exposure to interest rate risk as measured by the change in economic value of equity (EVE) and net interest income under varying rate shocks as of September 30, 2014 and December 31, 2013. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company s interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained in the 2013 Form 10-K.

	September 30, 2014					December 31, 2013				
	Economic Value of Equity			Net Interest Income		Economic Value of Equity			Net Interest In	
in Interest Rates in Basis Points hock) in thousands)	Amount	% Change	EVE Ratio	Amount	% Change	Amount	% Change	EVE Ratio	Amount	% C
	$ 256,184	(11.6)%	11.9%	$ 68,346	(3.3)%	$ 249,034	(15.4)%	11.8%	$ 58,521	(
	271,837	(6.3)	12.3	69,838	(1.2)	267,316	(9.2)	12.4	62,558	
	283,838	(2.1)	12.5	70,438	(0.3)	282,633	(4.0)	12.8	65,691	
	289,960		12.5	70,662		294,381		13.0	68,554	
	286,992	(1.0)	12.1	67,483	(4.5)	299,481	1.7	12.9	66,487	

Item 4. Controls and Procedures

The Company s management, including the Company s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company s internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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OceanFirst Financial Corp.

Consolidated Statements of Financial Condition

(dollars in thousands, except per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$ 27,657	$ 33,958
Securities available-for-sale, at estimated fair value	20,683	43,836
Securities held-to-maturity, net (estimated fair value of $493,059 at September 30, 2014 and $495,082 at December 31, 2013)	486,819	495,599
Federal Home Loan Bank of New York stock, at cost	14,785	14,518
Loans receivable, net	1,632,026	1,541,460
Mortgage loans held for sale	3,096	785
Interest and dividends receivable	5,579	5,380
Other real estate owned	6,466	4,345
Premises and equipment, net	24,690	23,684
Servicing asset	3,577	4,178
Bank Owned Life Insurance	55,668	54,571
Deferred tax asset	15,612	15,239
Other assets	12,043	12,158
Total assets	$ 2,308,701	$ 2,249,711
Liabilities and Stockholders Equity		
Deposits	$ 1,781,227	$ 1,746,763
Securities sold under agreements to repurchase with retail customers	61,457	68,304
Federal Home Loan Bank advances	205,196	175,000
Other borrowings	27,500	27,500
Advances by borrowers for taxes and insurance	6,716	6,471
Other liabilities	7,955	11,323
Total liabilities	2,090,051	2,035,361
Stockholders equity:		
Preferred stock, $.01 par value, $1,000 liquidation preference, 5,000,000 shares authorized, no shares issued		
Common stock, $.01 par value, 55,000,000 shares authorized, 33,566,772 shares issued and 17,118,314 and 17,387,049 shares outstanding at September 30, 2014 and December 31, 2013, respectively	336	336

Additional paid-in capital		264,948		263,319
Retained earnings		214,952		206,201
Accumulated other comprehensive loss		(7,189)		(6,619)
Less: Unallocated common stock held by Employee Stock Ownership Plan		(3,401)		(3,616)
Treasury stock 16,448,458 and 16,179,723 shares at September 30, 2014 and December 31, 2013, respectively		(250,996)		(245,271)
Common stock acquired by Deferred Compensation Plan		(302)		(665)
Deferred Compensation Plan Liability		302		665
Total stockholders equity		218,650		214,350
Total liabilities and stockholders equity	$	2,308,701	$	2,249,711

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Interest income:				
Loans	$ 17,944	$ 17,403	$ 52,720	$ 52,493
Mortgage-backed securities	1,642	1,865	5,136	5,540
Investment securities and other	556	716	1,929	2,163
Total interest income	20,142	19,984	59,785	60,196
Interest expense:				
Deposits	1,010	1,107	3,092	3,607
Borrowed funds	1,032	1,333	2,369	4,312
Total interest expense	2,042	2,440	5,461	7,919
Net interest income	18,100	17,544	54,324	52,277
Provision for loan losses	1,000	700	1,805	2,600
Net interest income after provision for loan losses	17,100	16,844	52,519	49,677
Other income:				
Bankcard services revenue	914	943	2,603	2,675
Wealth management revenue	579	628	1,727	1,583
Fees and service charges	2,397	2,117	6,533	5,671
Loan servicing income	239	200	693	528
Net gain on sales of investment securities available-for-sale	591		938	42
Net gain on sales of loans available-for-sale	226	316	577	877
Net loss from other real estate operations	(24)	(188)	(164)	(112)
Income from Bank Owned Life Insurance	382	419	1,097	1,067
Other		1	2	20
Total other income	5,304	4,436	14,006	12,351

Operating expenses:

Compensation and employee benefits	7,746	7,397	23,562	21,014
Occupancy	1,327	1,364	4,154	4,104
Equipment	879	675	2,403	2,003
Marketing	294	444	1,436	1,142
Federal deposit insurance	534	538	1,618	1,598
Data processing	1,111	1,067	3,168	3,002
Check card processing	518	454	1,458	1,288
Professional fees	704	358	1,602	1,673
Other operating expense	1,336	1,357	4,016	3,984
Total operating expenses	14,449	13,654	43,417	39,808
Income before provision for income taxes	7,955	7,626	23,108	22,220
Provision for income taxes	2,790	2,658	8,120	7,828
Net income	$ 5,165	$ 4,968	$ 14,988	$ 14,392
Basic earnings per share	$ 0.31	$ 0.29	$ 0.89	$ 0.84
Diluted earnings per share	$ 0.31	$ 0.29	$ 0.89	$ 0.84
Average basic shares outstanding	16,623	17,047	16,748	17,145
Average diluted shares outstanding	16,704	17,210	16,865	17,194

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Net income	$ 5,165	$ 4,968	$ 14,988	$ 14,392
Other comprehensive income:				
Unrealized loss on securities (net of tax benefit of $100 and $386 in 2014 and $1,498 and $4,859 in 2013)	(144)	(2,169)	(558)	(7,035)
Accretion of unrealized loss on securities reclassified to held-to-maturity (net of tax expense of $142 and $375 in 2014)	206		542	
Reclassification adjustment for gains included in net income (net of tax expense of $241 and $383 in 2014 and $17 in 2013)	(349)		(554)	(25)
Total comprehensive income	$ 4,878	$ 2,799	$ 14,418	$ 7,332

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

Consolidated Statements of

Changes in Stockholders Equity (Unaudited)

(in thousands, except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Employee Stock Ownership Plan	Treasury Stock	Common Stock Acquired by Deferred Compensation Plan	Deferred Compensation Plan Liability	Total
Balance at December 31, 2012	$	$ 336	$ 262,704	$ 198,109	$ 49	$ (3,904)	$ (237,502)	$ (647)	$ 647	$ 219,792
Net income				14,392						14,392
Other comprehensive loss, net of tax					(7,060)					(7,060)
Stock awards			509							509
Treasury stock allocated to restricted stock plan			(259)	4			255			
Purchased 533,018 shares of common stock							(8,107)			(8,107)
Allocation of ESOP stock			171			216				387
Cash dividend $0.36 per share				(6,208)						(6,208)
Exercise of stock options				(6)			70			64
Purchase of stock for the deferred compensation plan								(13)	13	
Balance at September 30, 2013	$	$ 336	$ 263,125	$ 206,291	$ (7,011)	$ (3,688)	$ (245,284)	$ (660)	$ 660	$ 213,769

Balance at December 31, 2013	$	$ 336	$ 263,319	$ 206,201	$ (6,619)	$ (3,616)	$ (245,271)	$ (665)	$ 665	$ 214,350
Net income				14,988						