Northfield Bancorp, Inc.
Form 10-Q
May 10, 2011

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For transition period from to

Commission File Number 1-33732

NORTHFIELD BANCORP, INC.
(Exact name of registrant as specified in its charter)

United States of America	**42-1572539**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**
1410 St. Georges Avenue, Avenel, New Jersey	**07001**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (732) 499-7200

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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 þ No o.

Indicate by check mark whether the registrant has submitted electronically and posted on it corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required and post such files). Yes o No o.

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if 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 o No þ.

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date. 42,617,931 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of May 5, 2011.

NORTHFIELD BANCORP, INC.
Form 10-Q Quarterly Report
Table of Contents

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

NORTHFIELD BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

March 31, 2011, and December 31, 2010

(In thousands, except per share amounts)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS:		
Cash and due from banks	$ 9,986	9,862
Interest-bearing deposits in other financial institutions	82,685	33,990
Total cash and cash equivalents	92,671	43,852
Trading securities	4,381	4,095
Securities available-for-sale, at estimated fair value (encumbered $393,348 in 2011 and $275,694 in 2010)	1,280,188	1,244,313
Securities held-to-maturity, at amortized cost (estimated fair value of $4,898 in 2011 and $5,273 in 2010) (encumbered $0 in 2011 and 2010)	4,710	5,060
Loans held-for-sale	322	1,170
Loans held-for-investment, net	853,099	827,591
Allowance for loan losses	(22,015)	(21,819)
Net loans held-for-investment	831,084	805,772
Accrued interest receivable	7,879	7,873
Bank owned life insurance	75,546	74,805
Federal Home Loan Bank of New York stock, at cost	9,334	9,784
Premises and equipment, net	16,357	16,057
Goodwill	16,159	16,159
Other real estate owned	521	171
Other assets	16,579	18,056
Total assets	$2,355,731	2,247,167
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Deposits	$1,403,263	1,372,842
Borrowings	489,365	391,237
Advance payments by borrowers for taxes and insurance	2,325	693
Accrued expenses and other liabilities	65,016	85,678
Total liabilities	1,959,969	1,850,450

STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued or outstanding		
Common stock, $0.01 par value: 90,000,000 shares authorized, 45,632,611 shares issued at March 31, 2011, and December 31, 2010, respectively, 42,917,594 and 43,316,021 outstanding at March 31, 2011, and December 31, 2010, respectively	456	456
Additional paid-in-capital	206,857	205,863
Unallocated common stock held by employee stock ownership plan	(15,042)	(15,188)
Retained earnings	226,776	222,655
Accumulated other comprehensive income	10,015	10,910
Treasury stock at cost; 2,715,017 and 2,316,590 shares at March 31, 2011, and December 31, 2010, respectively	(33,300)	(27,979)
Total stockholders equity	395,762	396,717
Total liabilities and stockholders equity	$2,355,731	2,247,167

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Three months ended March 31, 2011, and 2010
(Unaudited)
(In thousands, except share data)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Interest income:		
Loans	$ 12,474	10,293
Mortgage-backed securities	8,417	9,065
Other securities	970	1,500
Federal Home Loan Bank of New York dividends	109	95
Deposits in other financial institutions	28	54
Total interest income	21,998	21,007
Interest expense:		
Deposits	3,017	3,952
Borrowings	3,210	2,506
Total interest expense	6,227	6,458
Net interest income	15,771	14,549
Provision for loan losses	1,367	1,930
Net interest income after provision for loan losses	14,404	12,619
Non-interest income:		
Fees and service charges for customer services	694	660
Income on bank owned life insurance	741	423
Gain on securities transactions, net	1,805	615
Other-than-temporary impairment losses on securities	(161)	
Portion recognized in other comprehensive income (before taxes)		
Net impairment losses on securities recognized in earnings	(161)	
Other	30	25
Total non-interest income	3,109	1,723
Non-interest expense:		
Compensation and employee benefits	5,162	4,791

Director compensation	399	397
Occupancy	1,492	1,194
Furniture and equipment	287	272
Data processing	672	617
FDIC insurance	460	430
Professional fees	440	379
Other	1,041	1,041
Total non-interest expense	9,953	9,121
Income before income tax expense	7,560	5,221
Income tax expense	2,590	1,840
Net income	$ 4,970	3,381
Basic and diluted earnings per share	$ 0.12	0.08

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
Three months ended March 31, 2011, and 2010
(Unaudited)
(Dollars in thousands)

	Common Stock		Additional	Unallocated common stock held by the employee stock ownership plan		Accumulated other		Total
	Shares	Par value	paid-in capital		Retained earnings	comprehensive income	Treasury Stock	stockholders equity
Balance at December 31, 2009	45,628,211	$456	202,479	(15,807)	212,196	12,145	(19,929)	391,540
Comprehensive income:								
Net income					3,381			3,381
Change in accumulated comprehensive income, net of tax of $2,108						3,545		3,545
Total comprehensive income								6,926
ESOP shares allocated or committed to be released			55	147				202
Stock compensation expense			776					776
Additional stock benefit on stock awards			231					231
Exercise of stock options					(26)		163	137
Dividends declared ($0.04 per share)					(772)			(772)
Issuance of restricted stock	4,400							

Treasury stock (average cost of $13.25 per share)							(2,754)	(2,754)
Balance at March 31, 2010	45,632,611	456	203,541	(15,660)	214,779	15,690	(22,520)	396,286
Balance at December 31, 2010	45,632,611	456	205,863	(15,188)	222,655	10,910	(27,979)	396,717
Comprehensive income:								
Net income					4,970			4,970
Change in accumulated comprehensive income, net of tax of $598						(895)		(895)
Total comprehensive income								4,075
ESOP shares allocated or committed to be released			49	146				195
Stock compensation expense			759					759
Additional tax benefit on equity awards			186					186
Exercise of stock options					(1)		6	5
Dividends declared ($0.05 per share)					(848)			(848)
Treasury stock (average cost of $13.35 per share)							(5,327)	(5,327)
Balance at March 31, 2011	45,632,611	$456	206,857	(15,042)	226,776	10,015	(33,300)	395,762

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended March 31, 2011, and 2010
(Unaudited) (In thousands)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash flows from operating activities:		
Net income	$ 4,970	3,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,367	1,930
ESOP and stock compensation expense	954	978
Depreciation	498	432
Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees	82	123
Amortization of intangible assets	44	68
Income on bank owned life insurance	(741)	(423)
Net gain on sale of loans held-for-sale	(14)	
Proceeds from sale of loans held-for-sale	3,730	
Origination of loans held-for-sale	(2,868)	
Gain on securities transactions, net	(1,805)	(615)
Net impairment losses on securities recognized in earnings	161	
Net purchases of trading securities	(100)	(42)
(Increase) decrease in accrued interest receivable	(6)	12
Decrease in other assets	1,681	499
Decrease in accrued expenses and other liabilities	(678)	(154)
Net cash provided by operating activities	7,275	6,189
Cash flows from investing activities:		
Net increase in loans receivable	(27,003)	(8,367)
Redemptions of Federal Home Loan Bank of New York stock, net	450	1,395
Purchases of securities available-for-sale	(245,578)	(217,161)
Principal payments and maturities on securities available-for-sale	101,420	123,590
Principal payments and maturities on securities held-to-maturity	351	519
Proceeds from sale of securities available-for-sale	88,505	15,193
Purchases and improvements of premises and equipment	(798)	(870)
Net cash used in investing activities	(82,653)	(85,701)
Cash flows from financing activities:		
Net increase in deposits	30,421	76,020
Dividends paid	(848)	(772)
Exercise of stock options	5	137
Purchase of treasury stock	(5,327)	(2,754)
Additional tax benefit on equity awards	186	231

Increase in advance payments by borrowers for taxes and insurance	1,632	1,281
Repayments under capital lease obligations	(51)	(44)
Proceeds from borrowings	317,773	69,680
Repayments related to borrowings	(219,594)	(56,000)
Net cash provided by financing activities	124,197	87,779
Net increase in cash and cash equivalents	48,819	8,267
Cash and cash equivalents at beginning of period	43,852	42,544
Cash and cash equivalents at end of period	$ 92,671	50,811
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 6,010	6,645
Income taxes	1,024	1,565
Non-cash transactions:		
Loans charged-off, net	1,171	198
Other real estate owned charged-off		146
Transfers to other real estate owned	350	
Decrease in due to broker for purchases of securities available-for-sale	(19,984)	

See accompanying notes to the unaudited consolidated financial statements.

5

NORTHFIELD BANCORP, INC.
Notes to Unaudited Consolidated Financial Statements

Note 1 Basis of Presentation

The consolidated financial statements are comprised of the accounts of Northfield Bancorp, Inc., and its wholly-owned subsidiary, Northfield Bank (the Bank), and the Bank s wholly-owned significant subsidiaries, NSB Services Corp. and NSB Realty Trust (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three-month period ended March 31, 2011, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2011. Certain prior year amounts have been reclassified to conform to the current year presentation.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010, of Northfield Bancorp, Inc. as filed with the SEC.

Note 2 Securities Available-for-Sale

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at March 31, 2011, and December 31, 2010 (in thousands):

	March 31, 2011			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Mortgage-backed securities:				
Pass-through certificates:				
Government sponsored enterprises (GSE)	$ 560,644	13,217	65	573,796
Non-GSE	12,033	35	474	11,594
Real estate mortgage investment conduits (REMICs):				
GSE	517,197	2,636	2,887	516,946
Non-GSE	55,977	3,183	49	59,111
	1,145,851	19,071	3,475	1,161,447
Other securities:				
Equity investments-mutual funds	7,924			7,924
Corporate bonds	109,248	1,651	82	110,817
	117,172	1,651	82	118,741
Total securities available-for-sale	$ 1,263,023	20,722	3,557	1,280,188

	December 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Mortgage-backed securities:				
Pass-through certificates:				
Government sponsored enterprises (GSE)	$ 342,316	13,479		355,795
Non-GSE	27,801	814	737	27,878
Real estate mortgage investment conduits (REMICs):				
GSE	622,582	3,020	3,525	622,077
Non-GSE	65,766	3,674	51	69,389
	1,058,465	20,987	4,313	1,075,139
Other securities:				
Equity investments-mutual funds	12,437	31	115	12,353
GSE bonds	34,988	45		35,033
Corporate bonds	119,765	2,146	123	121,788
	167,190	2,222	238	169,174
Total securities available-for-sale	$ 1,225,655	23,209	4,551	1,244,313

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at March 31, 2011 (in thousands):

Available-for-sale	Amortized cost	Estimated fair value
Due in one year or less	$ 69,328	70,421
Due after one year through five years	39,920	40,396
	$ 109,248	110,817

Expected maturities on mortgage-backed securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

For the three months ended March 31, 2011, the Company had gross proceeds of $88.5 million on sales of securities available-for-sale with gross realized gains and gross realized losses of approximately $1.6 million and $0, respectively. For the three months ended March 31, 2010, the Company had gross proceeds of $15.2 million on sales of securities available-for-sale with gross realized gains and gross realized losses of approximately $270,000 and $0, respectively. The Company recognized $186,000 and $345,000 in gains on its trading securities portfolio during the three months ended March 31, 2011 and 2010, respectively. The Company recognized other-than-temporary impairment charges of $161,000 against earnings during the three months ended March 31, 2011 related to one equity investment in a mutual fund. The Company did not recognize any other-than-temporary impairment charges during the three months ended March 31, 2010.

Gross unrealized losses on mortgage-backed securities, GSE bonds, and corporate bonds available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011, and December 31, 2010, were as follows (in thousands):

Table of Contents

	March 31, 2011					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						
Government sponsored enterprises (GSE)	$ 65	26,558			65	26,558
Non-GSE			474	5,945	474	5,945
Real estate mortgage investment conduits (REMICs)						
GSE	2,887	279,882			2,887	279,882
Non-GSE			49	1,088	49	1,088
Corporate bonds	82	13,831			82	13,831
Total	$ 3,034	320,271	523	7,033	3,557	327,304

	December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						
Non-GSE	$		737	10,126	737	10,126
REMICs						
GSE	3,525	344,971			3,525	344,971
Non-GSE			51	1,238	51	1,238
Corporate bonds	123	13,880			123	13,880
Equity Investments mutual funds	115	4,884			115	4,884
Total	$ 3,763	363,735	788	11,364	4,551	375,099

Included in the above available-for-sale security amounts at March 31, 2011, was one pass-through non-GSE mortgage-backed security in a continuous unrealized loss position of greater than twelve months that was rated less than AAA at March 31, 2011. This security, had an estimated fair value of $5.9 million (amortized cost of $6.4 million), was rated Caa2, and had the following underlying collateral characteristics: 83% originated in 2004, and 17% originated in 2005. The rating of the security detailed above represents the lowest rating for the security received from the rating agencies of Moody s, Standard & Poor s, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of this security. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for this security. Since management does not have the intent to sell the security and it is more likely than not that the Company will not be required to sell the security, before its anticipated recovery, the Company believes that the unrealized loss at March 31, 2011, is temporary, and as such, is recorded as a component of accumulated other comprehensive income, net of tax.

The Company held one REMIC non-GSE mortgage-backed security that was in a continuous unrealized loss position of greater than twelve months, and three corporate bonds, four pass-through GSE mortgage-backed securities, and nineteen REMIC mortgage-backed securities issued or guaranteed by GSEs, that were in an unrealized loss position of less than twelve months, and rated investment grade at March 31, 2011. The declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not provide sufficient protections to our contractual principal and interest. As a result, there is a risk that significant other-than-temporary impairments may occur in the future given the current economic environment.

In addition to the one pass-through non-GSE mortgage-backed security discussed above, the Company had one additional private label security that was rated less than AAA at March 31, 2011. This security was rated CC, and was in an unrealized gain position at March 31, 2011. Two REMIC non-GSE mortgage-backed securities, both in unrealized gain positions at March 31, 2011, were downgraded from AAA to A2 and A1, respectively, subsequent to March 31, 2011.

Note 3 Net Loans Held-for-Investment

Net loans held-for-investment are as follows (in thousands):

	March 31, 2011	December 31, 2010
Real estate loans:		
Commercial mortgage	$326,494	339,321
One- to- four family residential mortgage	75,458	78,032
Construction and land	30,318	35,054
Multifamily	323,316	283,588
Home equity and lines of credit	30,076	28,125
Total real estate loans	785,662	764,120
Commercial and industrial loans	15,477	17,020
Insurance premium loans	49,701	44,517
Other loans	1,259	1,062
Total commercial and industrial, insurance premium, and other loans	66,437	62,599
Total loans held-for-investment	852,099	826,719
Deferred loan cost, net	1,000	872
Loans held-for-investment, net	853,099	827,591
Allowance for loan losses	(22,015)	(21,819)
Net loans held-for-investment	$831,084	805,772

Loans held-for-sale amounted to $322,000 and $1.2 million at March 31, 2011, and December 31, 2010, respectively. All loans held for sale are one- to four-family residential mortgage loans.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

The Company, through its principal subsidiary, the Bank, serviced $49.1 million and $52.1 million of loans at March 31, 2011 and December 31, 2010, respectively, for Freddie Mac. These one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed for by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At March 31, 2011, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. Servicing of loans for others does not have a material effect on our financial position or results of operations.

We provide for loan losses based on the consistent application of our documented allowance for loan loss methodology. Loan losses are charged to the allowance for loans losses and recoveries are credited to it. Additions to the allowance for loan losses are provided by charges against income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. Loan losses are charged-off in the period the loans, or portion thereof, are deemed uncollectible. Generally, the Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less cost to sell, for collateral dependent loans. We regularly review the loan portfolio and make adjustments for loan losses in order to maintain the allowance for loan losses in accordance with U.S. generally accepted accounting principles (GAAP). The allowance for loan losses consists primarily of the following two components:

(1) Allowances are established for impaired loans (generally defined by the Company as non-accrual loans with an outstanding balance of $500,000 or greater). The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the present value of expected future cash flows discounted at the original loan s effective interest rate or the underlying collateral value (less estimated costs to sell,) if the loan is collateral dependent, and the carrying value of the loan. Impaired loans that have no impairment losses are not considered for general valuation allowances described below.

9

(2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. The portfolio is grouped into similar risk characteristics, primarily loan type, loan-to-value, if collateral dependent, and internal credit risk ratings. We apply an estimated loss rate to each loan group. The loss rates applied are based on our cumulative prior two year loss experience adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on our financial results. Within general allowances is an unallocated reserve established to recognize losses related to the inherent subjective nature of the appraisal process and the internal credit risk rating process.

In underwriting a loan secured by real property, we require an appraisal (or an automated valuation model) of the property by an independent licensed appraiser approved by the Company s board of directors. The appraisal is subject to review by an independent third party hired by the Company. We review and inspect properties before disbursement of funds during the term of a construction loan. Generally, management obtains updated appraisals when a loan is deemed impaired. These appraisals may be more limited than those prepared for the underwriting of a new loan. In addition, when the Company acquires other real estate owned, it generally obtains a current appraisal to substantiate the net carrying value of the asset.

The adjustments to our loss experience are based on our evaluation of several environmental factors, including:

- changes in local, regional, national, and international economic and business conditions and developments that affect the collectibility of our portfolio, including the condition of various market segments;
- changes in the nature and volume of our portfolio and in the terms of our loans;
- changes in the experience, ability, and depth of lending management and other relevant staff;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- changes in the quality of our loan review system;
- changes in the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio.

In evaluating the estimated loss factors to be utilized for each loan group, management also reviews actual loss history over an extended period of time as reported by the OTS and FDIC for institutions both in our market area and nationally for periods that are believed to have experienced similar economic conditions.

We evaluate the allowance for loan losses based on the combined total of the impaired and general components. Generally when the loan portfolio increases, absent other factors, our allowance for loan loss methodology results in a higher dollar amount of estimated probable losses. Conversely, when the loan portfolio decreases, absent other factors, our allowance for loan loss methodology results in a lower dollar amount of estimated probable losses.

Each quarter we evaluate the allowance for loan losses and adjust the allowance as appropriate through a provision for loan losses. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the

Table of Contents

evaluations. In addition, as an integral part of their examination process, the Office of Thrift Supervision will periodically review the allowance for loan losses. The Office of Thrift Supervision may require us to adjust the allowance based on their analysis of information available to them at the time of their examination. Our last examination was as of September 30, 2010.

Activity in the allowance for loan losses is as follows (in thousands):

	At or for the three months ended March 31,	
	2011	**2010**
Beginning balance	$21,819	15,414
Provision for loan losses	1,367	1,930
Charge-offs, net	(1,171)	(198)
Ending balance	$22,015	17,146

11

Table of Contents

The following tables set forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2011, and the year ended December 31, 2010, respectively. The following tables also detail the amount of loans held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of allowance for loan losses that is allocated to each loan portfolio segment, as of March 31, 2011 and December 31, 2010.

	March 31, 2011									
	Real Estate									
	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Insurance Premium	Other	Unallocated	Total
Allowance for loan losses:										
Beginning Balance, December 31, 2010	$ 12,654	570	1,855	5,137	242	719	111	28	503	$ 21,819
Charge-offs	(1,150)			(25)			(2)			(1,177)
Recoveries	6									6
Provisions	1,196	(6)	(635)	466	17	(95)	15	7	402	1,367
Ending Balance, March 31, 2011	$ 12,706	564	1,220	5,578	259	624	124	35	905	$ 22,015
Ending balance, March 31, 2011: individually evaluated for impairment	$ 1,880	369	36	122						$ 2,407
Ending balance, March 31, 2011: collectively evaluated for impairment	$ 10,826	195	1,184	5,456	259	624	124	35	905	$ 19,608
Loans held-for-investment, net:										
Ending balance, March 31, 2011	$ 326,412	75,541	30,340	324,056	30,308	15,482	49,701	1,259		$ 853,099
Ending balance, March 31, 2011:	$ 49,955	1,750	3,620	3,223		1,473				$ 60,021

individually evaluated for impairment									
Ending balance, March 31, 2011: collectively evaluated for impairment	$ 276,457	73,791	26,720	320,833	30,308	14,009	49,701	1,259	$ 793,078

12

Table of Contents

	December 31, 2010									
	Real Estate									
	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Insurance Premium	Other	Unallocated	Total
Allowance for loan losses:										
Beginning Balance, December 31, 2009	$ 8,403	163	2,409	1,866	210	1,877	101	34	351	$ 15,414
Charge-offs	(987)		(443)	(2,132)		(36)	(101)			(3,699)
Recoveries							20			20
Provisions	5,238	407	(111)	5,403	32	(1,122)	91	(6)	152	10,084
Ending Balance, December 31, 2010	$ 12,654	570	1,855	5,137	242	719	111	28	503	$ 21,819
Ending balance, December 31, 2010: individually evaluated for impairment	$ 2,129	369	36	121						$ 2,655
Ending balance, December 31, 2010: collectively evaluated for impairment	$ 10,525	201	1,819	5,016	242	719	111	28	503	$ 19,164
Loans held-for-investment, net:										
Ending balance, December 31, 2010	$ 339,259	78,109	35,077	284,199	28,337	17,032	44,517	1,061		$ 827,591
Ending balance, December 31, 2010: individually evaluated for impairment	$ 51,324	1,750	4,562	5,083		500				$ 63,219
Ending balance, December 31, 2010:										

collectively evaluated for impairment	$ 287,935	76,359	30,515	279,116	28,337	16,532	44,517