

PROVIDENT FINANCIAL SERVICES INC

Form 10-Q

May 10, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **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

☐ **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: 001-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

239 Washington Street, Jersey City, New Jersey
(Address of Principal Executive Offices)

(732) 590-9200

(Registrant's Telephone Number, Including Area Code)

42-1547151
(I.R.S. Employer

Identification No.)

07302
(Zip Code)

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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 twelve 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 ☒ NO ☐

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

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 ☒

Accelerated Filer ☐

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 ☒

As of May 2, 2011 there were 83,209,293 shares issued and 60,461,119 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 425,363 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

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PROVIDENT FINANCIAL SERVICES, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

Consolidated Statements of Financial Condition

March 31, 2011 (Unaudited) and December 31, 2010

(Dollars in Thousands)

	March 31, 2011	December 31, 2010
<u>ASSETS</u>		
Cash and due from banks	\$ 103,495	\$ 51,345
Short-term investments	1,477	884
Total cash and cash equivalents	104,972	52,229
Securities available for sale, at fair value	1,261,678	1,378,927
Investment securities held to maturity (fair value of \$349,465 at March 31, 2011 (unaudited) and \$351,680 at December 31, 2010)	341,675	346,022
Federal Home Loan Bank stock	36,627	38,283
Loans	4,457,128	4,409,813
Less allowance for loan losses	72,688	68,722
Net loans	4,384,440	4,341,091
Foreclosed assets, net	2,477	2,858
Banking premises and equipment, net	74,958	74,257
Accrued interest receivable	23,525	25,257
Intangible assets	353,403	354,220
Bank-owned life insurance	138,176	136,768
Other assets	72,061	74,616
Total assets	\$ 6,793,992	\$ 6,824,528
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits:		
Demand deposits	\$ 2,736,244	\$ 2,706,204
Savings deposits	901,634	893,268
Certificates of deposit of \$100,000 or more	410,072	412,155
Other time deposits	840,049	866,107
Total deposits	4,887,999	4,877,734
Mortgage escrow deposits	21,463	19,558
Borrowed funds	923,289	969,683
Other liabilities	35,135	35,866

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Total liabilities	5,867,886	5,902,841
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 60,034,436 shares outstanding at March 31, 2011 and 59,921,065 outstanding at December 31, 2010	832	832
Additional paid-in capital	1,018,220	1,017,315
Retained earnings	338,754	332,472
Accumulated other comprehensive income	11,587	14,754
Treasury stock	(385,391)	(385,094)
Unallocated common stock held by the Employee Stock Ownership Plan	(57,896)	(58,592)
Common stock acquired by the Directors' Deferred Fee Plan	(7,459)	(7,482)
Deferred compensation - Directors' Deferred Fee Plan	7,459	7,482
Total stockholders' equity	926,106	921,687
Total liabilities and stockholders' equity	\$ 6,793,992	\$ 6,824,528

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Income

Three months ended March 31, 2011 and 2010 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended March 31,	
	2011	2010
Interest income:		
Real estate secured loans	\$ 40,290	\$ 39,714
Commercial loans	10,082	10,337
Consumer loans	6,519	7,276
Securities available for sale and Federal Home Loan stock	9,494	11,761
Investment securities	3,093	3,249
Deposits, Federal funds sold and other short-term investments	9	70
Total interest income	69,487	72,407
Interest expense:		
Deposits	9,830	13,506
Borrowed funds	6,210	8,133
Total interest expense	16,040	21,639
Net interest income	53,447	50,768
Provision for loan losses	7,900	9,000
Net interest income after provision for loan losses	45,547	41,768
Non-interest income:		
Fees	5,562	5,702
Bank-owned life insurance	1,408	1,398
Net gain on securities transactions	14	817
Other income	188	92
Total non-interest income	7,172	8,009
Non-interest expense:		
Compensation and employee benefits	18,483	17,539
Net occupancy expense	5,274	5,140
Data processing expense	2,264	2,284
FDIC insurance	1,880	2,099
Amortization of intangibles	840	1,103
Impairment of premises and equipment	807	
Advertising and promotion expense	598	670
Other operating expenses	5,205	5,927
Total non-interest expense	35,351	34,762

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Income before income tax expense	17,368	15,015
Income tax expense	4,437	3,828
Net income	\$ 12,931	\$ 11,187
Basic earnings per share	\$ 0.23	\$ 0.20
Average basic shares outstanding	56,771,307	56,457,544
Diluted earnings per share	\$ 0.23	\$ 0.20
Average diluted shares outstanding	56,771,307	56,457,544
See accompanying notes to unaudited consolidated financial statements.		

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Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2011 and 2010 (Unaudited)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2009	\$ 832	\$ 1,014,856	\$ 307,751	\$ 7,731	\$ (384,973)	\$ (61,642)	\$ (7,575)	\$ 7,575	\$ 884,555
Comprehensive income (loss):									
Net income			11,187						11,187
Other comprehensive income:									
Unrealized holding gain on securities arising during the period (net of tax of \$3,295)				4,770					4,770
Reclassification adjustment for gains included in net income (net of tax of \$334)				(483)					(483)
Amortization related to post- retirement obligations (net of tax of \$163)				(236)					(236)
Total comprehensive income									\$ 15,238
Cash dividends declared			(6,638)						(6,638)
Distributions from DDFP		(2)					24	(24)	(2)
Purchases of treasury stock					(176)				(176)
Allocation of ESOP shares		(239)				692			453
Allocation of SAP shares		576							576
Allocation of stock options		205							205
Balance at March 31, 2010	\$ 832	\$ 1,015,396	\$ 312,300	\$ 11,782	\$ (385,149)	\$ (60,950)	\$ (7,551)	\$ 7,551	\$ 894,211

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2011 and 2010 (Unaudited) (Continued)

(Dollars in thousands)

	ADDITIONAL		ACCUMULATED OTHER COMPREHENSIVE		UNALLOCATED		COMMON STOCK ACQUIRED	DEFERRED	TOTAL
	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	INCOME (LOSS)	TREASURY STOCK	ESOP SHARES	BY COMPENSATION DDFP	DDFP	STOCKHOLDERS' EQUITY
Balance at December 31, 2010	\$ 832	\$ 1,017,315	\$ 332,472	\$ 14,754	\$ (385,094)	\$ (58,592)	\$ (7,482)	\$ 7,482	\$ 921,687
Comprehensive income:									
Net income			12,931						12,931
Other comprehensive income:									
Unrealized holding loss on securities arising during the period (net of tax of (\$849))				(1,230)					(1,230)
Amortization related to post-retirement obligations (net of tax of \$1,338)				(1,937)					(1,937)
Total comprehensive income									\$ 9,764
Cash dividends paid			(6,649)						(6,649)
Distributions from DDFP							23	(23)	
Purchases of treasury stock					(301)				(301)
Stock option exercises		(1)			4				3
Allocation of ESOP shares		(101)				696			595
Allocation of SAP shares		801							801
Allocation of stock options		206							206
Balance at March 31, 2011	\$ 832	\$ 1,018,220	\$ 338,754	\$ 11,587	\$ (385,391)	\$ (57,896)	\$ (7,459)	\$ 7,459	\$ 926,106

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Cash Flows

Three months ended March 31, 2011 and 2010 (Unaudited)

(Dollars in thousands)

	Three months ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 12,931	\$ 11,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	2,552	2,859
Impairment of premises and equipment	807	
Provision for loan losses	7,900	9,000
Deferred tax (benefit) expense	(1,353)	683
Increase in cash surrender value of Bank-owned life insurance	(1,408)	(1,398)
Net amortization of premiums and discounts on securities	3,354	1,904
Accretion of net deferred loan fees	(205)	(593)
Amortization of premiums on purchased loans, net	391	521
Net increase in loans originated for sale	(2,267)	(1,623)
Proceeds from sales of loans originated for sale	2,294	1,650
Proceeds from sales of foreclosed assets	787	1,313
Allocation of ESOP shares	595	453
Allocation of stock award shares	801	576
Allocation of stock options	206	205
Net gain on sale of loans	(27)	(27)
Net gain on securities transactions	(14)	(817)
Net (gain) loss on sale of premises and equipment	(90)	3
Net gain on sale of foreclosed assets	(38)	(5)
Decrease in accrued interest receivable	1,732	1,022
Decrease (increase) in other assets	519	(2,283)
Decrease in other liabilities	(732)	(3,042)
Net cash provided by operating activities	28,735	21,588
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	14,447	9,686
Purchases of investment securities held to maturity	(10,226)	(9,286)
Proceeds from sales of securities available for sale	14	18,927
Proceeds from maturities and paydowns of securities available for sale	117,036	91,049
Purchases of securities available for sale	(5,094)	(30,687)
Purchases of loans	(48,803)	(23,292)
Net decrease in loans	936	80,187
Proceeds from sales of premises and equipment	448	768
Purchases of premises and equipment	(3,578)	(1,539)
Net cash provided by investing activities	65,180	135,813
Cash flows from financing activities:		
Net increase (decrease) in deposits	10,265	(14,462)
Increase in mortgage escrow deposits	1,905	1,384

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Purchase of treasury stock	(301)	(176)
Cash dividends paid to stockholders	(6,649)	(6,638)
Stock options exercised	3	
Proceeds from long-term borrowings	90,000	25,000
Payments on long-term borrowings	(82,877)	(70,702)
Net (decrease) increase in short-term borrowings	(53,518)	12,533
Net cash used in financing activities	(41,172)	(53,061)
Net increase in cash and cash equivalents	52,743	104,340
Cash and cash equivalents at beginning of period	52,229	123,743
Cash and cash equivalents at end of period	\$ 104,972	\$ 228,083
Cash paid during the period for:		
Interest on deposits and borrowings	\$ 16,475	\$ 22,154
Income taxes	\$ 2,280	\$
Non cash investing activities:		
Transfer of loans receivable to foreclosed assets	\$ 366	\$ 557

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Summary of Significant Accounting Policies*****A. Basis of Financial Statement Presentation***

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly owned subsidiary, The Provident Bank (the Bank, together with Provident Financial Services, Inc., the Company).

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates. The allowance for loan losses is a material estimate that is particularly susceptible to near-term change. The current unstable economic environment has increased the degree of uncertainty inherent in this material estimate.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results of operations that may be expected for all of 2011.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2010 Annual Report to Stockholders on Form 10-K.

B. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations:

	For the three months ended March 31,					
	Net Income	2011 Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	2010 Weighted Average Common Shares Outstanding	Per Share Amount
Net income	\$ 12,931			\$ 11,187		
Basic earnings per share:						
Income available to common stockholders	\$ 12,931	56,771,307	\$ 0.23	\$ 11,187	56,457,544	\$ 0.20
Diluted earnings per share:						
Income available to common stockholders	\$ 12,931	56,771,307	\$ 0.23	\$ 11,187	56,457,544	\$ 0.20

Anti-dilutive stock options and awards totaling 4,272,703 shares at March 31, 2011, were excluded from the earnings per share calculations.

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Loans receivable at March 31, 2011 and December 31, 2010 are summarized as follows (in thousands):

	March 31, 2011	December 31, 2010
Mortgage loans:		
Residential	\$ 1,409,789	1,386,326
Commercial	1,205,432	1,180,147
Multi-family	411,385	387,189
Construction	105,576	125,192
Total mortgage loans	3,132,182	3,078,854
Commercial loans	759,573	755,487
Consumer loans	559,871	569,597
Total gross loans	4,451,626	4,403,938
Premiums on purchased loans	6,843	6,771
Unearned discounts	(108)	(104)
Net deferred fees	(1,233)	(792)
	\$ 4,457,128	4,409,813

The following table summarizes the aging of loans receivable by portfolio segment and class as follows (in thousands):

	At March 31, 2011						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past Due and Non- accrual	Current	Total Loans Receivable	
Mortgage loans:							
Residential	\$ 19,732	8,561	42,575	70,868	1,338,921	1,409,789	
Commercial	8,172	2,871	27,345	38,388	1,167,044	1,205,432	
Multi-family	1,018		204	1,222	410,163	411,385	
Construction			8,984	8,984	96,592	105,576	
Total mortgage loans	28,922	11,432	79,108	119,462	3,012,720	3,132,182	
Commercial loans	9,855	1,326	27,189	38,370	721,203	759,573	
Consumer loans	6,193	2,680	8,256	17,129	542,742	559,871	
Total loans	\$ 44,970	15,438	114,553	174,961	4,276,665	4,451,626	

	At December 31, 2010						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past Due and Non- accrual	Current	Total Loans Receivable	
Mortgage loans:							
Residential	\$ 21,407	8,370	41,247	71,024	1,315,302	1,386,326	

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Commercial	396	4,286	16,091	20,773	1,159,374	1,180,147
Multi-family	1,024		201	1,225	385,964	387,189
Construction			9,412	9,412	115,780	125,192
Total mortgage loans	22,827	12,656	66,951	102,434	2,976,420	3,078,854
Commercial loans	1,958	562	23,505	26,025	729,462	755,487
Consumer loans	8,074	3,488	6,808	18,370	551,227	569,597
Total loans	\$ 32,859	16,706	97,264	146,829	4,257,109	4,403,938

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Included in non-accrual loans were \$38.9 million and \$23.1 million of loans which were less than 90 days past due at March 31, 2011 and December 31, 2010, respectively.

An impaired loan is defined as a non-homogenous loan greater than \$1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings (TDRs). A loan is deemed to be a TDR when a modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans. The Company separately calculates the reserve for loan loss on impaired loans. The Company may recognize impairment of a loan based upon (1) the present value of expected cash flows discounted at the effective interest rate; or (2) if loan is collateral dependent, the fair value of collateral; or (3) the market price of the loan. Additionally, if impaired loans have risk characteristics in common, those loans can be aggregated and historical statistics may be used as a means of measuring those impaired loans.

At March 31, 2011, there were 37 impaired loans totaling \$67.8 million. Included in this total were 16 TDRs to 15 borrowers totaling \$11.7 million that were performing in accordance with their restructured terms and which continued to accrue interest at March 31, 2011. At December 31, 2010, there were 24 impaired loans totaling \$47.2 million. Included in this total were 6 TDRs to 5 borrowers totaling \$7.6 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2010.

Loans receivable summarized by portfolio segment and impairment method are as follows (in thousands):

	At March 31, 2011			Total Portfolio Segments
	Mortgage loans	Commercial loans	Consumer loans	
Individually evaluated for impairment	\$ 42,080	25,759		67,839
Collectively evaluated for impairment	3,090,102	733,814	559,871	4,383,787
Loan acquired with deteriorated credit quality				
Total	\$ 3,132,182	759,573	559,871	4,451,626

	At December 31, 2010			Total Portfolio Segments
	Mortgage loans	Commercial loans	Consumer loans	
Individually evaluated for impairment	\$ 27,016	20,642		47,658
Collectively evaluated for impairment	3,051,838	734,845	569,597	4,356,280
Loan acquired with deteriorated credit quality				
Total	\$ 3,078,854	755,487	569,597	4,403,938

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The allowance for loan losses is summarized by portfolio segment and impairment classification as follows (in thousands):

	At March 31, 2011
Mortgage loans	