

Investors Bancorp Inc  
Form 10-Q  
November 09, 2009

**Table of Contents**

**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: September 30, 2009**

**Commission file number: 0-51557**

**Investors Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**22-3493930**

(I.R.S. Employer Identification No.)

**101 JFK Parkway, Short Hills, New Jersey 07078**

(Address of principal executive offices)

**(973) 924-5100**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all the reports 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 report), and (2) has been subject to such filing requirements for the past 90 days. YES  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

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

As of October 30, 2009 there were 114,498,520 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 64,844,373 shares, or 56.63% of the Registrant's outstanding common stock, were held by Investors Bancorp, MHC, the Registrant's mutual holding company.

**Investors Bancorp, Inc.**  
**FORM 10-Q**  
Index

	Page
<b>Part I. Financial Information</b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of September 30, 2009 (unaudited) and June 30, 2009</u>	3
<u>Consolidated Statements of Income for the Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	4
<u>Consolidated Statements of Stockholders' Equity for the Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	37
<b>Part II. Other Information</b>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3. <u>Defaults upon Senior Securities</u>	38
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	39
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	39
<u>Signature Page</u>	40
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**Table of Contents****INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Balance Sheets

September 30, 2009 (Unaudited) and June 30, 2009

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 308,120	317,757
Securities available-for-sale, at estimated fair value	376,194	355,016
Securities held-to-maturity, net (estimated fair value of \$791,615 and \$861,302 at September 30, 2009 and June 30, 2009, respectively)	772,492	846,043
Loans receivable, net	6,323,727	6,143,169
Loans held-for-sale	19,189	61,691
Stock in the Federal Home Loan Bank	68,902	72,053
Accrued interest receivable	37,455	37,291
Office properties and equipment, net	45,773	44,142
Net deferred tax asset	119,624	118,455
Bank owned life insurance contract	113,834	113,191
Intangible assets	26,516	26,365
Other assets	3,862	1,259
<b>Total assets</b>	<b>\$ 8,215,688</b>	<b>8,136,432</b>
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Deposits	\$ 5,629,314	5,505,747
Borrowed funds	1,660,549	1,730,555
Advance payments by borrowers for taxes and insurance	30,036	26,839
Other liabilities	62,370	54,008
<b>Total liabilities</b>	<b>7,382,269</b>	<b>7,317,149</b>
Stockholders equity:		
Preferred stock, \$0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 114,498,520 and 114,692,020 outstanding at September 30, 2009 and June 30, 2009, respectively	532	532
Additional paid-in capital	526,778	524,463
Retained earnings	410,122	399,672
Treasury stock, at cost; 3,521,760 and 3,328,260 shares at September 30, 2009 and June 30, 2009, respectively	(44,274)	(42,447)
Unallocated common stock held by the employee stock ownership plan	(35,805)	(36,160)
Accumulated other comprehensive loss	(23,934)	(26,777)
<b>Total stockholders equity</b>	<b>833,419</b>	<b>819,283</b>

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Total liabilities and stockholders' equity	\$ 8,215,688	8,136,432
--	--------------	-----------

See accompanying notes to consolidated financial statements.

3

---

**Table of Contents**

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Consolidated Statements of Income  
(Unaudited)

	<b>For the Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	(Dollars in thousands, except per share data)	
Interest and dividend income:		
Loans receivable and loans held-for-sale	\$ 85,117	70,480
Securities:		
Government-sponsored enterprise obligations	247	500
Mortgage-backed securities	11,046	13,439
Equity securities available-for-sale		55
Municipal bonds and other debt	988	2,137
Interest-bearing deposits	208	32
Federal Home Loan Bank stock	1,025	805
 Total interest and dividend income	 98,631	 87,448
 Interest expense:		
Deposits	29,774	31,009
Secured borrowings	17,402	17,699
 Total interest expense	 47,176	 48,708
 Net interest income	 51,455	 38,740
Provision for loan losses	12,375	5,000
 Net interest income after provision for loan losses	 39,080	 33,740
 Non-interest income (loss):		
Fees and service charges	1,438	843
Income on bank owned life insurance contract	592	1,013
Gain on sales of loans, net	2,987	184
Loss on securities transactions, net	(20)	(4,366)
Other income	362	94
 Total non-interest income (loss)	 5,359	 (2,232)
 Non-interest expenses:		
Compensation and fringe benefits	15,586	14,682
Advertising and promotional expense	930	805
Office occupancy and equipment expense	3,640	2,745
Federal deposit insurance premiums	2,340	681
Stationery, printing, supplies and telephone	647	539
Legal, audit, accounting, and supervisory examination fees	651	549
Data processing service fees	1,347	1,157

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Amortization of deposit premiums	183	
Other operating expenses	1,287	1,203
Total non-interest expenses	26,611	22,361
Income before income tax expense	17,828	9,147
Income tax expense	7,355	3,656
Net income	\$ 10,473	5,491
Earnings per share basic and diluted	\$ 0.10	0.05
Weighted average shares outstanding		
Basic	109,803,171	103,794,369
Diluted	109,898,606	104,092,853

See accompanying notes to consolidated financial statements.

4

**Table of Contents****INVESTORS BANCORP, INC.**

Consolidated Statements of Stockholder's Equity  
 Three months ended September 30, 2009 and 2008  
 (Unaudited)

	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Treasury stock (In thousands)</b>	<b>Unallocated Common Stock Held by ESOP</b>	<b>Accumulated other comprehensive loss</b>	<b>Total stockholders equity</b>
Balance at June 30, 2008	\$ 532	514,613	486,244	(128,977)	(37,578)	(6,296)	828,538
Comprehensive income:							
Net income			5,491				5,491
Change in funded status of retirement obligations, net of tax benefit of \$152						(231)	(231)
Unrealized loss on securities available-for-sale, net of tax benefit of \$453						(898)	(898)
Reclassification adjustment for losses included in net income						457	457
Total comprehensive income							4,819
Compensation cost for stock options and restricted stock ESOP shares allocated or committed to be released		2,598					2,598
		161			355		516
Balance at September 30, 2008	\$ 532	517,372	491,735	(128,977)	(37,223)	(6,968)	836,471
	\$ 532	524,463	399,672	(42,447)	(36,160)	(26,777)	819,283



Edgar Filing: Investors Bancorp Inc - Form 10-Q

Balance at June 30,  
2009

Comprehensive  
income:

Net income			10,473				10,473
Change in funded status of retirement obligations, net of tax benefit of \$62						(95)	(95)
Unrealized gain on securities available-for-sale, net of tax expense of \$1,916						2,938	2,938
Total comprehensive income							13,316

Purchase of treasury  
stock (198,500  
shares)

				(1,900)			(1,900)
Treasury stock allocated to restricted stock plan	(50)	(23)	73				
Compensation cost for stock options and restricted stock ESOP shares allocated or committed to be released	2,380					355	2,380
	(15)						340

Balance at September 30, 2009	\$ 532	526,778	410,122	(44,274)	(35,805)	(23,934)	833,419
----------------------------------	--------	---------	---------	----------	----------	----------	---------

See accompanying notes to consolidated financial statements.

**Table of Contents**

**INVESTORS BANCORP, INC. AND SUBSIDIARY**  
Consolidated Statements of Cash Flows  
(Unaudited)

	<b>For the Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 10,473	5,491
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	2,720	3,114
Amortization of premiums and accretion of discounts on securities, net	1,223	123
Amortization of premium and accretion of fees and costs on loans, net	1,624	641
Amortization of intangible assets	183	
Provision for loan losses	12,375	5,000
Depreciation and amortization of office properties and equipment	911	621
Loss on securities transactions	20	4,366
Mortgage loans originated for sale	(129,365)	(77,090)
Proceeds from mortgage loan sales	174,853	66,392
Gain on sales of loans, net	(1,168)	(184)
Income on bank owned life insurance contract	(592)	(1,013)
Increase in accrued interest	(164)	(3,970)
Deferred tax benefit	(3,074)	(2,584)
Increase in other assets	(2,869)	(325)
Decrease in other liabilities	8,205	9,429
 Total adjustments	 64,882	 4,520
 Net cash provided by operating activities	 75,355	 10,011
Cash flows from investing activities:		
Purchases of loans receivable	(235,767)	(563,326)
Net repayments (originations) of loans receivable	19,964	(83,665)
Proceeds from sale of non performing loan	21,178	
Gain on sale of loan	(1,819)	
Purchases of mortgage-backed securities available-for-sale	(52,761)	
Purchases of other investments available-for-sale	(250)	(100)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	70,284	50,362
Proceeds from calls/maturities on debt securities held-to-maturity	2,883	1,177
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	30,829	11,073
Proceeds from maturities of US Government and Agency Obligations available-for-sale	5,000	
Proceeds from sale of equity securities available-for-sale		250
Proceeds from redemptions of Federal Home Loan Bank stock	3,151	13,118

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Purchases of Federal Home Loan Bank stock		(38,633)
Purchases of office properties and equipment	(2,542)	(2,722)
Net cash used in investing activities	(139,850)	(612,466)
Cash flows from financing activities:		
Net increase in deposits	123,567	31,730
Net decrease in funds borrowed under short-term repurchase agreements		(25,000)
Repayments of funds borrowed under other repurchase agreements		(70,000)
Net (decrease) increase in other borrowings	(70,006)	661,993
Net increase in advance payments by borrowers for taxes and insurance	3,197	1,409
Purchase of treasury stock	(1,900)	
Net cash provided by financing activities	54,858	600,132
Net decrease in cash and cash equivalents	(9,637)	(2,323)
Cash and cash equivalents at beginning of the period	317,757	22,823
Cash and cash equivalents at end of the period	\$ 308,120	20,500
Supplemental cash flow information:		
Noncash investing activities:		
Transfer of loans to other real estate owned	\$ 68	
Cash paid during the year for:		
Interest	47,565	46,673
Income taxes	6,130	2,858
See accompanying notes to consolidated financial statements.		

**Table of Contents****INVESTORS BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

**1. Basis of Presentation**

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Savings Bank (Bank) (collectively, the Company) and the Bank's wholly-owned subsidiaries. The Company changed its fiscal year from June 30 to December 31, beginning with the six-month period ending December 31, 2009.

In the opinion of management, all the adjustments (consisting 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 September 30, 2009 are not necessarily indicative of the results of operations that may be expected for subsequent periods.

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 the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company's audited consolidated financial statements and notes to consolidated financial statements included in the Company's June 30, 2009 Annual Report on Form 10-K.

**2. Earnings Per Share**

The following is a summary of our earnings per share calculations and reconciliation of basic to diluted earnings per share.

	<b>For the Three Months Ended September 30,</b>					
	<b>2009</b>			<b>2008</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>
	(In thousands, except per share data)					
Net Income	\$ 10,473			\$ 5,491		
Basic earnings per share:						
Income available to common stockholders	\$ 10,473	109,803,171	\$ 0.10	\$ 5,491	103,794,369	\$ 0.05
Effect of dilutive common stock equivalents		95,435			298,484	
Diluted earnings per share:						
Income available to common stockholders	\$ 10,473	109,898,606	\$ 0.10	\$ 5,491	104,092,853	\$ 0.05

There were 7,412 and 19,638 anti-dilutive common stock options excluded for the earnings per share calculation at September 30, 2009 and September 30, 2008, respectively.

**Table of Contents****3. Securities**

The amortized cost, gross unrealized gains and losses and estimated fair value of securities available-for-sale and held-to-maturity for the dates indicated are as follows:

	Amortized cost	September 30, 2009 Gross unrealized gains      Gross unrealized losses		Estimated fair value
		(In thousands)		
Available-for-sale:				
Equity securities	\$ 1,812	173		1,985
Government-sponsored enterprises	25,032	34		25,066
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	\$ 157,479	2,503		159,982
Federal National Mortgage Association	117,932	2,680	2	120,610
Government National Mortgage Association	265	26		291
Non-agency securities	72,652	346	4,738	68,260
	348,328	5,555	4,740	349,143
Total securities available-for-sale	\$ 375,172	5,762	4,740	376,194
Held-to-maturity:				
Debt securities:				
Government-sponsored enterprises	\$ 15,232	896	1	16,127
Municipal bonds	10,419	197	6	10,610
Corporate and other debt securities	20,695	1,449	6,159	15,985
	46,346	2,542	6,166	42,722
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	391,162	13,230	113	404,279
Government National Mortgage Association	4,147	314		4,461
Federal National Mortgage Association	254,393	11,065	70	265,388
Federal housing authorities	2,602	254		2,856
Non-agency securities	73,842	3	1,936	71,909
	726,146	24,866	2,119	748,893
Total securities held-to-maturity	\$ 772,492	27,408	8,285	791,615
Total securities	\$ 1,147,664	33,170	13,025	1,167,809

**Table of Contents**

		<b>June 30, 2009</b>		
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
		(In thousands)		
<b>Available-for-sale:</b>				
Equity securities	\$ 1,583	15		1,598
Government-sponsored enterprises	30,051	28		30,079
<b>Mortgage-backed securities:</b>				
Federal Home Loan Mortgage Corporation	\$ 151,450	1,276	8	152,718
Federal National Mortgage Association	94,967	1,661	11	96,617
Government National Mortgage Association	275	25		300
Non-agency securities	80,523	137	6,956	73,704
	327,215	3,099	6,975	323,339
<b>Total securities available-for-sale</b>	<b>\$ 358,849</b>	<b>3,142</b>	<b>6,975</b>	<b>355,016</b>
<b>Held-to-maturity:</b>				
<b>Debt securities:</b>				
Government-sponsored enterprises	\$ 18,238	924	1	19,161
Municipal bonds	10,420	211	7	10,624
Corporate and other debt securities	20,727	2,332	2,930	20,129
	49,385	3,467	2,938	49,914
<b>Mortgage-backed securities:</b>				
Federal Home Loan Mortgage Corporation	429,969	10,426	307	440,088
Federal National Mortgage Association	278,272	8,682	134	286,820
Government National Mortgage Association	4,269	348		4,617
Federal housing authorities	2,654	254		2,908
Non-agency securities	81,494		4,539	76,955
	796,658	19,710	4,980	811,388
<b>Total securities held-to-maturity</b>	<b>\$ 846,043</b>	<b>23,177</b>	<b>7,918</b>	<b>861,302</b>
<b>Total securities</b>	<b>\$ 1,204,892</b>	<b>26,319</b>	<b>14,893</b>	<b>1,216,318</b>

**Table of Contents**

Gross unrealized losses on securities available-for-sale and held-to-maturity and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009 and June 30, 2009, was as follows:

	Less than 12 months		September 30, 2009 12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
(In thousands)						
Available-for-sale:						
Mortgage-backed securities:						
Federal National Mortgage Association	\$ 194	2			194	2
Non-agency securities	4,971	327	34,199	4,411	39,170	4,738
	5,165	329	34,199	4,411	39,364	4,740
Total available-for-sale:	\$ 5,165	329	34,199	4,411	39,364	4,740
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	\$ 231	1			231	1
Municipal bonds			1,193	6	1,193	6
Corporate and other debt securities	7,266	6,159			7,266	6,159
	7,497	6,160	1,193	6	8,690	6,166
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	18,967	64	5,385	49	24,352	113
Federal National Mortgage Association	5,143	26	5,643	44	10,786	70
Non-agency securities			68,452	1,936	68,452	1,936
	24,110	90	79,480	2,029	103,590	2,119
Total held-to-maturity	\$ 31,607	6,250	80,673	2,035	112,280	8,285
Total	\$ 36,772	6,579	114,872	6,446	151,644	13,025





**Table of Contents**

	Less than 12 months		June 30, 2009 12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value (In thousands)	Unrealized losses	Estimated fair value	Unrealized losses
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	\$ 947	8			947	8
Federal National Mortgage Association	8,587	11			8,587	11
Non-agency securities	359	109	67,149	6,847	67,508	6,956
	9,893	128	67,149	6,847	77,042	6,975
Total available-for-sale:	\$ 9,893	128	67,149	6,847	77,042	6,975
Held-to-maturity:						
Debt securities:						
Government-sponsored enterprises	\$ 237	1			237	1
Municipal bonds			1,193	7	1,193	7
Corporate and other debt securities	9,238	2,930			9,238	2,930
	9,475	2,931	1,193	7	10,668	2,938
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	19,968	171	7,980	136	27,948	307
Federal National Mortgage Association	14,170	28	13,841	106	28,011	134
Non-agency securities			76,955	4,539	76,955	4,539
	34,138	199	98,776	4,781	132,914	4,980
Total held-to-maturity:	\$ 43,613	3,130	99,969	4,788	143,582	7,918
Total	53,506	3,258	167,118	11,635	220,624	14,893

Our corporate and other debt securities portfolio consists of 33 pooled trust preferred securities, principally issued by banks. During the prior fiscal year, the Company took a \$158.0 million other-than-temporary impairment, or OTTI, pre-tax charge reducing the carrying amount of our investment in the pooled trust preferred securities to \$20.7 million.

## Edgar Filing: Investors Bancorp Inc - Form 10-Q

At September 30, 2009, the decline in fair value is mostly attributable to further deterioration in liquidity and widening credit spreads for pooled trust preferred securities. The Company does not intend to sell the securities and it is more likely than not that we will not be required to sell the securities before recovery of their amortized cost. Under certain stress scenarios estimated future losses may arise. Management determined that no other-than-temporary impairment existed as of September 30, 2009.

The unrealized losses on investments in mortgage-backed securities were attributed to increases in market interest rates and changes in credit spreads subsequent to purchase. Securities guaranteed by Freddie Mac and Fannie Mae (U.S. government-sponsored enterprises) represent 62.8% of the estimated fair value of total mortgage-backed securities. Securities not guaranteed by these entities comply with the investment and credit standards set at time of purchase in the investment policy of the Company. At September 30, 2009, the Company's non-agency

**Table of Contents**

mortgage-backed securities portfolio had an amortized cost of \$146.5 million and an estimated fair value of \$140.2 million. Excluding the securities acquired through the redemption in kind of AMF Ultra Short Mortgage Fund ( AMF ), which had an amortized cost and fair value of \$1.3 million at September 30, 2009, there are 28 non-agency securities comprised of AAA, AA, A and BBB rated mortgage-backed securities with a fair value of \$124.6 million, \$5.9 million, \$2.5 million and \$5.9 million, respectively. These securities were originated in the period 2002-2004 and are performing in accordance with contractual terms. For securities with larger decreases in fair values, management estimates the loss projections for each security by stressing the individual loans collateralizing the security with a range of expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on those specific assumptions, a range of possible cash flows were identified to determine whether other-than-temporary impairment existed as of September 30, 2009. Under certain stress scenarios estimated future losses may arise. Management determined that no other-than-temporary impairment existed as of September 30, 2009.

There were no sales from the securities portfolio during the quarter ended September 30, 2009.

A portion of the Company's securities are pledged to secure borrowings.

The contractual maturities of mortgage-backed securities held-to-maturity generally exceed 20 years; however, the effective lives are expected to be shorter due to anticipated prepayments. The amortized cost and estimated fair value of debt securities at September 30, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	<b>September 30, 2009</b>	
	<b>Amortized cost</b>	<b>Estimated fair value</b>
	(In thousands)	
Due in one year or less	\$	
Due after one year through five years	19,070	20,062
Due after five years through ten years	1,451	1,444
Due after ten years	25,825	21,216
Total	\$ 46,346	42,722

**Table of Contents****4. Loans Receivable, Net**

Loans receivable, net are summarized as follows:

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
	(In thousands)	
Residential mortgage loans	\$ 4,739,097	4,708,899
Multi-family loans	552,475	482,783
Commercial real estate loans	530,423	433,204
Construction loans	338,681	346,967
Commercial & industrial loans	16,801	15,665
Consumer and other loans	181,502	184,198
 Total loans	 6,358,979	 6,171,716
Premiums on purchased loans	21,915	21,313
Deferred loan fees, net	(3,616)	(3,252)
Allowance for loan losses	(53,551)	(46,608)
 Net loans	 \$ 6,323,727	 6,143,169

**An analysis of the allowance for loan losses is summarized as follows:**

	<b>September 30, 2009 (In thousands)</b>
Balance at June 30, 2009	\$ 46,608
Loans charged off	(5,476)
Recoveries	44
Net charge-offs	(5,432)
Provision for loan losses	12,375
Balance at September 30, 2009	\$ 53,551

**5. Deposits**

Deposits are summarized as follows:

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
	(In thousands)	
Savings accounts	\$ 835,874	779,678
Checking accounts	957,241	898,816

Money market accounts	572,577	521,425
Total core deposits	2,365,692	2,199,919
Certificates of deposit	3,263,622	3,305,828
Total deposits	\$ 5,629,314	5,505,747

### 6. Equity Incentive Plan

During the three months ended September 30, 2009, the Company recorded \$2.4 million of share-based expense, comprised of stock option expense of \$1.0 million and restricted stock expense of \$1.4 million.

During the three months ended September 30, 2009, no options were forfeited and 10,000 options with a weighted average grant date fair value of \$3.55 were granted. At September 30, 2009, 5,146,752 options, with a weighted average exercise price of \$15.01 and a weighted average grant date fair value of \$4.10 were outstanding, of which 3,047,149 were unvested.

Expected future expense relating to the 3.0 million non-vested options outstanding as of September 30, 2009 is \$8.8 million over a weighted average period of 2.5 years.

**Table of Contents**

During the three months ended September 30, 2009, 5,000 shares of restricted stock with a weighted average grant date fair value of \$9.98 were granted. At September 30, 2009, 1,135,063 shares of restricted stock, with a weighted average grant date fair value of \$14.90, are unvested. Expected future compensation expense relating to the 1.1 million restricted shares at September 30, 2009 is \$11.8 million over a weighted average period of 2.5 years.

**7. Net Periodic Benefit Plans Expense**

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to employees of the Company if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. For the Company's active directors on 12/31/06, the Company has a non-qualified, defined benefit plan which provides pension benefits. The SERP and the Directors' plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The components of net periodic benefit expense are as follows:

	<b>Three months ended September 30, SERP and Directors' Plan</b>	
	<b>2009</b>	<b>2008</b>
	(In thousands)	
Service cost	\$ 112	136
Interest cost	257	263
Amortization of: Transition obligation		
Prior service cost	25	24
Net loss	32	35
Total net periodic benefit expense	\$ 426	458

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors' plans and other benefit plans in the six-month period ending December 31, 2009.

The Company also maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. We did not contribute to the defined benefit pension plan during the quarter ended September 30, 2009. We anticipate contributing funds to the plan to meet any minimum funding requirements.

Additionally, at the time of our June 2008 acquisition of Summit Federal Savings Bank, Summit Federal had a funded non-contributory defined benefit pension plan covering all eligible employees, an unfunded non-qualified defined benefit SERP for the benefit of certain key

**Table of Contents**

employees and a post-retirement life insurance benefit plan for the benefit of key employees. At September 30, 2009 and June 30, 2009, the pension plan had an accrued liability of \$1.2 million and \$917,000, respectively. At September 30, 2009 and June 30, 2009, the charges recognized in accumulated other comprehensive loss for the pension plan were \$1.5 million and \$1.2 million, respectively. At September 30, 2009 and June 30, 2009, the SERP plan had an accrued liability of \$909,000 and \$890,000, respectively. At September 30, 2009 and June 30, 2009, the charges recognized in accumulated other comprehensive loss for the SERP plan were \$118,000 and \$125,000, respectively. For the three months ended September 30, 2009 and 2008, the expense related to these plans was \$71,000 and \$74,000, respectively.

**8. Fair Value Measurements**

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, or MSR, loans receivable and real estate owned, or REO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets. Additionally, in connection with our mortgage banking activities we have commitments to fund loans held for sale and commitments to sell loans, which are considered free-standing derivative instruments, the fair values of which are not material to our financial condition or results of operations.

In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 820, Fair Value Measurements and Disclosures, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

**Table of Contents*****Securities available-for-sale***

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Approximately 99% of our securities available-for-sale portfolio consists of mortgage-backed and government-sponsored enterprise securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the majority of securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The remaining 1% of our securities available-for-sale portfolio is comprised primarily of private fund investments for which the issuer provides us prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available. The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at September 30, 2009.

	<b>Carrying Value at September 30, 2009</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		(In thousands)		
Securities available for sale:				
Mortgage-backed securities	\$ 349,143		349,143	\$
Government-sponsored enterprises	\$ 25,066		25,066	
Equity securities	1,985		1,985	
	\$ 376,194	\$	\$ 376,194	\$

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

***Securities held-to-maturity***

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the held-to-maturity portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations.



**Table of Contents*****Mortgage Servicing Rights, net***

Mortgage Servicing Rights are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements and, as such, are classified as Level 3.

***Loans Receivable***

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than \$3.0 million and on non-accrual status. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3. The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at September 30, 2009.

	<b>Carrying Value at September 30, 2009</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		(In thousands)		
MSR, net	5,011			5,011

**9. Fair Value of Financial Instruments**

Effective April 1, 2009, the Company adopted new accounting guidance by the FASB, which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, this guidance requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments as well as any changes in the methods and significant assumptions used during the period. Since the provisions of this guidance are disclosure related, the adoption did not have an impact on our financial condition and results of operation.

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

***Cash and Cash Equivalents***

For cash and due from banks, the carrying amount approximates fair value.

***Securities***

The fair values of securities are estimated based on market values provided by an independent pricing service, where prices are available. If a quoted market price was not available, the fair value was estimated using quoted market values of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

**Table of Contents**

***FHLB Stock***

The fair value of FHLB stock is its carrying value, since this is the amount for which it could be redeemed. There is no active market for this stock and the Bank is required to hold a minimum investment based upon the unpaid principal of home mortgage loans and/or FHLB advances outstanding.

***Loans***

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources adjusted to reflect differences in servicing and credit costs, if applicable. Fair value for significant nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

***Deposit Liabilities***

The fair value of deposits with no stated maturity, such as savings, checking accounts and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates which approximate currently offered for deposits of similar remaining maturities.

***Borrowings***

The fair value of borrowings are based on securities dealers' estimated market values, when available, or estimated using discounted contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

***Commitments to Extend Credit***

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For commitments to originate fixed rate loans, fair value also considers the difference between current levels of interest rates and the committed rates. Due to the short-term nature of our outstanding commitments, the fair values of these commitments are immaterial to our financial condition.

**Table of Contents**

The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following table.

	<b>September 30, 2009</b>		<b>June 30, 2009</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
		(In thousands)		
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 308,120	\$ 308,120	\$ 317,757	\$ 317,757
Securities available-for-sale	376,194	376,194	355,016	355,016
Securities held-to-maturity	772,492	791,614	846,043	861,302
Stock in FHLB	68,902	68,902	72,053	72,053
Loans	6,342,916	6,532,231	6,204,860	6,351,544
<b>Financial liabilities:</b>				
Deposits	5,629,314	5,672,298	5,505,747	5,547,871
Borrowed funds	1,660,549	1,735,499	1,730,555	1,799,840

**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred tax assets, premises and equipment and bank owned life insurance. Liabilities for pension and other postretirement benefits are not considered financial liabilities. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**10. Recent Accounting Pronouncements**

In June 2009, the FASB Codification (the Codification) was issued. The Codification is the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have an impact on the Company's consolidated financial condition and results of operations.

**Table of Contents**

In June 2009, the FASB issued ASC 860, an amendment to the accounting and disclosure requirements for transfers of financial assets. The guidance defines the term *participating interest* to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet those conditions, a transferor should account for the transfer as a sale only if it transfers an entire financial asset or a group of entire financial assets and surrenders control over the entire transferred asset(s). The guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. This Statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company does not expect that the adoption of ASC 860 will have a material impact on its financial condition, results of operations or financial statement disclosures.

In June 2008, the FASB ratified ASC 840-10, *Accounting by Lessees for Nonrefundable Maintenance Deposits*. ASC 840-10 requires that all nonrefundable maintenance deposits be accounted for as a deposit with the deposit expensed or capitalized in accordance with the lessee's maintenance accounting policy when the underlying maintenance is performed. Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is to be recognized as additional expense at the time such determination is made. ASC 840-10 is effective for fiscal years beginning after July 1, 2009. The Company does not expect the adoption of ASC 840-10 will have a material impact on its financial condition, results of operations or financial statement disclosures.

In February 2008, ASC 820-10, *Effective Date of ASC 820*, was issued. ASC 820-10 delayed the application of ASC 820, *Fair Value Measurements and Disclosures* for non-financial assets and non-financial liabilities until July 1, 2009. The Company does not expect that the adoption of ASC 820-10 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued ASC 805, *Business Combinations*. ASC 805 requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. ASC 805 applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under ASC 805, all business combinations will be accounted for by applying the acquisition method. The adoption of ASC 805 on July 1, 2009 did not have a material impact on the Company's consolidated financial statements.

**Table of Contents**

In June 2008, ASC 260-10 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of ASC 260-10 on July 1, 2009 did not have a material impact on the Company's consolidated financial statements.

**11. Subsequent Events**

As defined in FASB ASC 855-10, Subsequent Events, subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or available to be issued. Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. The Company has evaluated subsequent events through November 9, 2009, which is the date that the Company's financial statements are being issued. Based on the evaluation, the Company did not identify any recognized subsequent events that would have required an adjustment to the financial statements. The following were nonrecognized subsequent events identified by the Company: On October 16, 2009, the Company announced it completed the acquisition of six New Jersey Branches and approximately \$227.0 deposits from Banco Popular North America. The Company did not purchase any loans as part of the transaction.

On November 3, 2009, the Company announced its Board of Directors approved a change in the Company's fiscal year end from June 30 to December 31. The change will become effective at the end of the quarter ending December 31, 2009 with the filing of the Company's Form 10-K.

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

**Forward Looking Statements**

Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by

**Table of Contents**

reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Investors Bancorp, Inc. (the Company) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations or interpretations of regulations affecting financial institutions, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines 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.

**Executive Summary**

Investors Bancorp's fundamental business strategy is to be a well capitalized, full service, community bank which provides high quality customer service and competitively priced products and services to individuals and businesses in the communities we serve.

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits, interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets. The Company's results of operations are also significantly affected by general economic conditions.

The financial services industry continues to be plagued by adverse economic conditions which include mounting credit losses, illiquidity in certain areas of the capital and credit markets, the continued decline of property values in real estate markets, and recent bank failures.

The Federal Reserve has maintained short term interest rates at historically low levels resulting in a steep yield curve. Lower short term interest rates have helped us reduce the cost of our interest-bearing liabilities contributing to a \$12.7 million increase in our net interest income to \$51.5 million for the three months ended September 30, 2009 from \$38.7 million for the three months ended September 30, 2008.

While the interest rate environment is important to our net interest income, so is the composition of our balance sheet. The recent turmoil in the financial markets has created uncertainty and volatility for many financial institutions. This created an opportunity for us to add more loans and increase the size of our balance sheet. Total loans increased to \$6.36 billion at September 30,

**Table of Contents**

2009 from \$6.17 billion at June 30, 2009, an increase of 3.0%. Diversification of the loan portfolio remains an important goal and during the three months ended September 30, 2009 commercial real estate loans increased \$97.2 million, or 22.4%, to \$530.4 million and multi-family loans increased \$69.7 million, or 14.4% to \$552.5 million. This may provide us with an opportunity to increase net interest income and improve our interest rate risk position. As we add more loans to our balance sheet we remain focused on maintaining our historically strict underwriting standards. We have never originated any sub-prime loans, negative amortization loans or option ARM loans.

With the continued growth in our loan portfolio and the increase in the amount of commercial real estate loans, we believe higher loan loss provisions are prudent and necessary especially in light of the current economic environment. During the three months ended September 30, 2009, we recorded a \$12.4 million provision for loan losses. It is difficult to determine how the economy will fare looking forward as we are faced with predictions of rising unemployment in our lending area through the greater portion of 2010. We will continue to monitor our loan portfolio carefully and maintain our conservative loan underwriting practices.

Total non-performing loans, defined as non-accruing loans, decreased to \$115.5 million, or 1.82% of total loans at September 30, 2009, compared to \$121.7 million, or 1.97% of total loans at June 30, 2009. The decrease in non-performing loans was attributed to the sale of a previously disclosed \$19.4 million multi-family loan for a \$1.8 million gain and \$5.5 million in loan charge-offs. Although we have resolved a number of non-performing loans, the current economic environment continues to plague several large construction loan borrowers. At September 30, 2009, the Company moved a \$9.9 million construction loan that is current to non-performing status. Additionally, residential loan delinquency has risen as unemployment in our lending area has steadily increased over the past year. The current economic conditions have had a negative impact on certain of our investment securities. Our securities portfolio includes non-agency mortgage backed securities with an amortized cost of \$146.5 million and a fair value of \$140.2 million. The fair values of certain of these securities are being adversely impacted by higher loan delinquency rates, rising projected loss rates, and the securities re-pricing to lower interest rates. Our securities portfolio also includes pooled trust preferred securities, principally issued by banks and to a lesser extent insurance companies. These securities which were written down through an other-than-temporary impairment charge in the prior fiscal year, continue to be negatively impacted by an increase in payment deferrals by issuers and the absence of an orderly and liquid market. The trust preferred securities portfolio has a book value of \$20.7 million and a fair value of \$16.0 million. We continue to closely monitor all of these securities and will continue to evaluate them for possible other-than-temporary impairment, which could result in future non-cash charges to earnings in upcoming quarters. During the quarter, total deposits increased by \$123.6 million to \$5.6 billion at September 30, 2009. Core deposits increased \$165.8 million, or 7.5%, for the quarter, while certificates of deposits decreased \$42.2 million, or 1.28%. Increasing core deposits remains one of our primary goals.

We are a well capitalized bank with a tangible capital ratio of 9.85%. Given our strong capital and liquidity positions, we believe we will be able to take advantage of opportunities to grow and enhance our franchise value.

**Table of Contents**

**Comparison of Financial Condition at September 30, 2009 and June 30, 2009**

**Total Assets.** Total assets increased by \$79.3 million, or 1.0%, to \$8.22 billion at September 30, 2009 from \$8.14 billion at June 30, 2009. This increase was largely the result of the growth in our loan portfolio partially offset by the decrease in our securities portfolio. The cash flow from our securities portfolio is being used to help fund our loan growth, consistent with our strategic plan.

**Net Loans.** Net loans, including loans held for sale, increased by \$138.1 million, or 2.2%, to \$6.34 billion at September 30, 2009 from \$6.20 billion at June 30, 2009. As many financial institutions have curtailed their lending operations, we have taken advantage of this opportunity to increase our loan portfolio without compromising our underwriting standards. The loans we originate and purchase are on properties in New Jersey and states in close proximity to New Jersey. We do not originate or purchase, and our loan portfolio does not include, any sub-prime loans or option ARMs.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the three months ended September 30, 2009 we originated \$195.2 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the three months ended September 30, 2009, we purchased loans totaling \$235.8 million from these entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. During the three months ended September 30, 2009, we purchased a total of \$10.5 million of residential mortgage loans that met our underwriting criteria on a bulk purchase basis.

For the three months ended September 30, 2009, we originated \$193.0 million in multi-family and commercial real estate loans and \$19.9 million in construction loans. This activity is consistent with our strategy to diversify our loan portfolio by adding more multi-family, commercial real estate and construction loans.

The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower's loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower's ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at September 30, 2009 was \$542.0 million compared to \$517.1 million at June 30, 2009. The ability of borrowers to repay their obligations are dependent upon various factors including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control. The Company is, therefore, subject to risk of loss.

The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.



**Table of Contents**

The allowance for loan losses increased by \$6.9 million to \$53.6 million at September 30, 2009 from \$46.6 million at June 30, 2009. The increase in the allowance was primarily attributable to the higher current year loan loss provision which reflects the overall growth in the loan portfolio, particularly residential and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; the increase in non-performing loans; and the continued adverse economic environment, offset partially by net charge offs of \$5.4 million.

Total non-performing loans, defined as non-accruing loans, decreased by \$6.2 million to \$115.5 million at September 30, 2009 from \$121.7 million at June 30, 2009. The non-performing loans are comprised of 22 construction loans totaling \$70.5 million, 135 residential loans totaling \$40.1 million, 9 commercial loans totaling \$3.4 million, 4 multifamily loans totaling \$0.6 million, and 29 consumer loans totaling \$0.9 million. The decrease in non-performing loans was primarily attributed to the sale of a previously disclosed \$19.4 million multi-family loan for a \$1.8 million gain, the short sale of \$4.1 million construction loan, and the impact of charge-offs. Although we have had resolution on a number of non-performing loans, the current economic environment continues to cause financial difficulties for several large construction loans. At September 30, 2009, the Company moved a \$9.9 million construction loan that was current to non-performing status. Additionally, residential loan delinquency has risen as unemployment in our lending area has steadily increased over the past year.

In addition to non-performing loans we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of September 30, 2009, there are 3 loans totaling \$18.7 million that the Company has deemed as potential problems. Management is actively monitoring these loans.

The ratio of non-performing loans to total loans was 1.82% at September 30, 2009 compared to 1.97% at June 30, 2009. The allowance for loan losses as a percentage of non-performing loans was 46.35% at September 30, 2009 compared with 38.30% at June 30, 2009. At September 30, 2009 our allowance for loan losses as a percentage of total loans was 0.84% compared with 0.76% at June 30, 2009. Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See *Critical Accounting Policies*.

**Securities.** Securities, in the aggregate, decreased by \$52.4 million, or 4.4%, to \$1.15 billion at September 30, 2009, from \$1.20 billion at June 30, 2009. The decrease is primarily the result of cash flows from our securities portfolio being used to help fund our loan growth. This is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio.

**Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets.** The amount of stock we own in the Federal Home Loan Bank (FHLB) decreased by \$3.2 million from \$72.1 million at June 30, 2009 to \$68.9 million at September 30, 2009 as a result of an decrease in our level of borrowings at September 30, 2009. There was an increase in accrued interest receivable of \$0.2 million resulting from an increase in the average balance of our

**Table of Contents**

interest-earning assets. Additionally, bank owned life insurance increased by \$0.6 million from \$113.2 million at June 30, 2009 to \$113.8 million at September 30, 2009.

**Deposits.** Deposits increased by \$123.6 million, or 2.2%, to \$5.63 billion at September 30, 2009 from \$5.51 billion at June 30, 2009. Checking accounts, savings deposits, and money market account deposits increased \$58.4 million, \$56.2 million, and \$51.2 million, respectively. These increases were offset by a \$42.2 million decrease in certificates of deposits.

**Borrowed Funds.** Borrowed funds decreased \$70.0 million, or 4.0%, to \$1.66 billion at September 30, 2009 from \$1.73 billion at June 30, 2009. We elected to pay off maturing loans due to our excess liquidity position at September 30, 2009.

**Stockholders Equity.** Stockholders equity increased \$14.1 million to \$833.4 million at September 30, 2009 from \$819.3 million at June 30, 2009. The increase is primarily due to net income of \$10.5 million and accumulated other comprehensive income increasing \$2.8 million for the three months ended September 30, 2009.

**Average Balance Sheets for the Three Months ended September 30, 2009 and 2008**

The following table presents certain information regarding Investors Bancorp, Inc.'s financial condition and net interest income for the three months ended September 30, 2009 and 2008. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Edgar Filing: Investors Bancorp Inc - Form 10-Q

**Table of Contents**

	For the three months ended					
	September 30, 2009			September 30, 2008		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate (Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning assets:						
Interest-bearing deposits	\$ 350,091	\$ 208	0.24%	\$ 18,321	\$ 32	0.70%
Securities available-for-sale(1)	362,672	2,949	3.25%	202,533	2,314	4.57%
Securities held-to-maturity	811,273	9,332	4.60%	1,230,798	13,817	4.49%
Net loans	6,250,896	85,117	5.45%	4,940,058	70,480	5.71%
Stock in FHLB	70,546	1,025	5.81%	70,374	805	4.58%
Total interest-earning assets	7,845,478	98,631	5.03%	6,462,084	87,448	5.41%
Non-interest earning assets	321,748			187,218		
Total assets	\$ 8,167,226			\$ 6,649,302		
Interest-bearing Liabilities:						
Savings	\$ 806,530	3,816	1.89%	\$ 401,532	1,872	1.86%
Interest-bearing checking	803,226	2,281	1.14%	362,575	1,373	1.51%
Money market accounts	521,288	2,043	1.57%	231,650	1,219	2.10%
Certificates of deposit	3,310,766	21,634	2.61%	2,912,856	26,545	3.65%
Borrowed funds	1,697,073	17,402	4.10%	1,804,823	17,699	3.92%
Total interest-bearing liabilities	7,138,883	47,176	2.64%	5,713,436	48,708	3.41%
Non-interest bearing liabilities	209,766			110,969		
Total liabilities	7,348,649			5,824,405		
Stockholders equity	818,577			824,897		
Total liabilities and stockholders equity	\$ 8,167,226			\$ 6,649,302		
Net interest income		\$ 51,455			\$ 38,740	

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Net interest rate spread(2)		2.39%	2.00%
Net interest earning assets(3)	\$ 706,595	\$ 748,648	
Net interest margin(4)		2.62%	2.40%
Ratio of interest-earning assets to total interest-bearing liabilities	1.10X	1.13X	

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

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

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

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

assets.

**Table of Contents****Comparison of Operating Results for the Three Months Ended September 30, 2009 and 2008**

**Net Income.** Net income was \$10.5 million for the three months ended September 30, 2009 compared to net income of \$5.5 million for the three months ended September 30, 2008.

**Net Interest Income.** Net interest income increased by \$12.7 million, or 32.8%, to \$51.5 million for the three months ended September 30, 2009 from \$38.7 million for the three months ended September 30, 2008. During the three months ended September 30, 2009, our net interest rate spread increased 39 basis points to 2.39% as a result of a 77 basis point decrease in our cost of interest-bearing liabilities to 2.64% for the three months ended September 30, 2009 from 3.41% for the three months ended September 30, 2008. Our net interest margin increased by 22 basis points from 2.40% for the three months ended September 30, 2008 to 2.62% for the three months ended September 30, 2009. Our net interest margin was positively impacted by the Federal Reserve lowering the Fed Funds rate from 2.00% at September 30, 2008 to a range of 0.00% to 0.25% at September 30, 2009. This resulted in a steeper yield curve which allowed us to reduce deposit rates and borrow money in the wholesale markets at lower rates while keeping mortgage rates relatively stable.

**Interest and Dividend Income.** Total interest and dividend income increased by \$11.2 million, or 12.8%, to \$98.6 million for the three months ended September 30, 2009 from \$87.4 million for the three months ended September 30, 2008. This increase is primarily due to an \$1.38 billion, or 21.4%, increase in the average balance of interest-earning assets to \$7.85 billion for the three months ended September 30, 2009 from \$6.46 billion for the three months ended September 30, 2008. The weighted average yield on interest-earning assets was 5.03% for the three months ended September 30, 2009 and 5.41% for the three months ended September 30, 2008.

Interest income on loans increased by \$14.6 million, or 20.8%, to \$85.1 million for the three months ended September 30, 2009 from \$70.5 million for the three months ended September 30, 2008, reflecting a \$1.3 billion, or 26.5%, increase in the average balance of net loans to \$6.25 billion for the three months ended September 30, 2009 from \$4.94 billion for the three months ended September 30, 2008. There was a 26 basis point decrease in the average yield on loans to 5.45% for the three months ended September 30, 2009 from 5.71% for the three months ended September 30, 2008 reflecting higher refinancing activity on residential mortgage loans, as consumers took advantage of historically low mortgage rates, and the impact of non accrual loans.

Interest income on all other interest-earning assets, excluding loans, decreased by \$3.5 million, or 20.4%, to \$13.5 million for the three months ended September 30, 2009 from \$17.0 million for the three months ended September 30, 2008. This decrease reflected a 107 basis point decrease in the average yield on securities and other interest-earning assets to 3.39% for the three months ended September 30, 2009 from 4.46% for the three months ended September 30, 2008 as some of our adjustable rate securities re-priced in relation to current market rates.

**Interest Expense.** Total interest expense decreased by \$1.5 million, or 3.14%, to \$47.2 million for the three months ended September 30, 2009 from \$48.7 million for the three months ended September 30, 2008. This decrease was primarily due to a 77 basis point decrease in the weighted average cost of total interest-bearing liabilities to 2.64% for the three months ended September 30, 2009 compared to 3.41% for the three months ended September 30, 2008. This was partially offset by a \$1.4 billion, or 24.9%, increase in the average balance of total interest-

**Table of Contents**

bearing liabilities to \$7.14 billion for the three months ended September 30, 2009 from \$5.71 billion for the three months ended September 30, 2008.

Interest expense on interest-bearing deposits decreased \$1.2 million, or 4.0%, to \$29.8 million for the three months ended September 30, 2009 from \$31.0 million for the three months ended September 30, 2008. This decrease was due to a 98 basis point decrease in the average cost of interest-bearing deposits to 2.19% for the three months ended September 30, 2009 compared to 3.17% for the three months ended September 30, 2008, as lower short term interest rates allowed us to lower our deposit rates. This was partially offset by a \$1.53 billion increase in the average balance of interest-bearing deposits.

Interest expense on borrowed funds decreased by \$0.3 million, or 1.7%, to \$17.4 million for the three months ended September 30, 2009 from \$17.7 million for the three months ended September 30, 2008. This decrease was caused by a \$107.8 million, or 6.0%, decrease in the average balance of borrowed funds to \$1.70 billion for the three months ended September 30, 2009 from \$1.80 billion for the three months ended September 30, 2008, partially offset by a 18 basis point increase in the average cost of borrowed funds to 4.10% for the three months ended September 30, 2009 from 3.92% for the three months ended September 30, 2008.

**Provision for Loan Losses.** The provision for loan losses was \$12.4 million for the three months ended September 30, 2009 compared to \$5.0 million for the three months ended September 30, 2008. Net charge-offs were \$5.4 million for the three months ended September 30, 2009 compared to three thousand for the three months ended September 30, 2008. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at September 30, 2009 and June 30, 2009*.

**Non-interest Income.** Total non-interest income increased by \$7.6 million to income of \$5.4 million for the three months ended September 30, 2009 from a loss of \$2.2 million for the three months ended September 30, 2008. The loss during the three months ended September 30, 2008 was primarily the result of a \$3.9 million pre-tax OTTI charge recognized on a pooled bank trust preferred CDO. During the three months ended September 30, 2009, we recognized a \$1.8 million gain from the sale of our largest non-performing loan.

**Non-interest Expenses.** Total non-interest expenses increased by \$4.3 million, or 19.0%, to \$26.6 million for the three months ended September 30, 2009 from \$22.4 million for the three months ended September 30, 2008. This increase was due primarily to a \$1.7 million increase in FDIC insurance premium expense, \$0.9 million increase in compensation expense and \$0.9 million increase occupancy costs related to the additional branches acquired in the American Bank acquisition which closed June 2009.

**Income Taxes.** Income tax expense was \$7.4 million for the three months ended September 30, 2009, as compared to \$3.7 million for the three months ended September 30, 2008. Our effective tax expense rates were 41.26% and 39.97% for the three months ended September 30, 2009 and 2008, respectively.

**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, Federal Home Loan Bank ( FHLB ) and other borrowings and, to a lesser extent, investment maturities. While scheduled

**Table of Contents**

amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and other borrowings from the FHLB and other correspondent banks.

At September 30, 2009 and June 30, 2009 the Company had no overnight borrowings outstanding. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total borrowings of \$1.66 billion at September 30, 2009, a decrease from \$1.73 billion at June 30, 2009. This decrease was the result of the maturity of borrowings.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At September 30, 2009, outstanding commitments to originate loans totaled \$454.3 million; outstanding unused lines of credit totaled \$364.1 million; standby letters of credit totaled \$1.9 million and outstanding commitments to sell loans totaled \$56.2 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$2.58 billion at September 30, 2009. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company. The Board of Directors approved a third share repurchase program at their January 2008 meeting, which authorizes the repurchase of an additional 10% of the Company's outstanding common stock. The third share repurchase program commenced upon completion of the first program on May 7, 2008. Under this program, up to 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three month period ended September 30, 2008, the Company repurchased 198,500 shares of its common stock. Under the current share repurchase program, 2,928,436 shares remain available for repurchase. As of September 30, 2008, a total of 11,482,233 shares have been purchased under Board authorized share repurchase programs, of which 1,808,701 shares were allocated to fund the restricted stock portion of the Company's 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

As of September 30, 2009 the Bank exceeded all regulatory capital requirements as follows:

	<b>As of September 30, 2009</b>			
	<b>Actual</b>			<b>Required</b>
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in thousands)</b>			
Total capital (to risk-weighted assets)	\$797,769	16.8%	\$380,550	8.0%
Tier I capital (to risk-weighted assets)	744,218	15.7	190,275	4.0
Tier I capital (to average assets)	744,218	9.2	324,848	4.0
	30			



**Table of Contents****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 primarily relate to lending commitments.

The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2009:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than One Year</b>	<b>One-Two Years</b>	<b>Two-Three Years</b>	<b>More than Three Years</b>
Debt obligations (excluding capitalized leases)	\$ 1,660,549	415,000	570,000	275,549	400,000
Commitments to originate and purchase loans	\$ 454,273	454,273			
Commitments to sell loans	\$ 56,225	56,225			

Additionally, at September 30, 2009, the Company's commitments to fund unused lines of credit totaled \$364.1 million.

Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, \$790.0 million of the borrowings are callable at the option of the lender.

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements.

Commitments generally have a fixed expiration or other termination clauses which may or may not require a payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

In addition to the contractual obligations previously discussed, we have other liabilities and capitalized and operating lease obligations. These contractual obligations as of September 30, 2009 have not changed significantly from June 30, 2009.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2009 Annual Report on Form 10-K.

**Critical Accounting Policies**

We consider accounting policies that require management to exercise significant judgment or discretion or to make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies.

**Allowance for Loan Losses.** The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and, therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

**Table of Contents**

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than \$3.0 million and on non-accrual status. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company's definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. 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. On a quarterly basis, management's Allowance for Loan Loss Committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination and purchase of residential mortgage loans and, to a lesser extent, commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and

**Table of Contents**

the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the general economy, and a decline in real estate market values in New Jersey. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

Our allowance for loan losses reflects probable losses considering, among other things, the actual growth and change in composition of our loan portfolio, the level of our non-performing loans and our charge-off experience. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current operating environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

***Deferred Income Taxes.*** The Company records income taxes in accordance with ASC 740, *Income Taxes*, as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

***Asset Impairment Judgments.*** Certain of our assets are carried on our consolidated balance sheets at cost, fair value or at the lower of cost or fair value. Valuation allowances or write-downs are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of such assets. In addition to the impairment analyses related to our loans discussed above, another significant impairment analysis is the determination of whether there has been an other-than-temporary decline in the value of one or more of our securities.

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the

**Table of Contents**

securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

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

The market values of our securities are also affected by changes in interest rates. When significant changes in interest rates occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

If it is determined that the value of any security has declined below its cost or amortized cost, and such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. During the three months ended September 30, 2008, we recorded a \$3.9 million, pre-tax, non-cash, other-than-temporary impairment charge on one pooled bank trust preferred security classified as held to maturity.

***Stock-Based Compensation.*** We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, Compensation-Stock Compensation.

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Qualitative Analysis.** We believe our most significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the maturity or re-pricing of our assets, liabilities and off-balance sheet contracts (i.e., loan commitments); the effect of loan prepayments, deposits and withdrawals; the difference in the behavior of lending and funding rates arising from the uses of different indices; and yield curve risk arising from changing interest rate relationships across the spectrum of maturities for constant or variable credit risk investments. Besides directly affecting our net interest income, changes in market interest rates can also affect the amount of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancings, the carrying value of securities classified as available for sale and the mix and flow of deposits.

The general objective of our interest rate risk management is to determine the appropriate level of risk given our business model and then manage that risk in a manner consistent with our policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our Interest Rate Risk Committee, which consists of senior management, evaluates the interest rate risk inherent in certain assets and liabilities, our operating environment and capital and liquidity requirements and modifies our lending, investing and deposit gathering strategies accordingly. On a quarterly basis, our Board of Directors reviews the Interest Rate Risk Committee report, the aforementioned activities and strategies, the estimated effect of those strategies on our net interest margin and the estimated effect that changes in market interest rates may have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. Historically, our lending activities have emphasized one- to four-family fixed- and variable- rate first mortgages. Our variable-rate mortgage related assets have helped to reduce our exposure to interest rate fluctuations and is expected to benefit our long-term profitability, as the rate earned in the mortgage loans will increase as prevailing market rates increase. However, the current interest rate environment, and the preferences of our customers, has resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans and adjustable-rate construction loans. In addition, we primarily invest in shorter-to-medium duration securities, which generally have shorter average lives and lower yields compared to longer term securities. Shortening the average lives of our securities, along with originating more adjustable-rate mortgages and commercial real estate mortgages, will help to reduce interest rate risk.

We retain two independent, nationally recognized consulting firms who specialize in asset and liability management to complete our quarterly interest rate risk reports. They use a combination of analyses to monitor our exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value ( NPV ) over a range of immediately changed interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. In calculating changes in NPV, assumptions estimating loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes are used.

The net interest income analysis uses data derived from a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations and the U.S. Treasury yield curve as of the balance sheet

**Table of Contents**

date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually. Net interest income analysis also adjusts the dynamic asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our dynamic asset and liability analysis determines the relative balance between the repricing of assets and liabilities over multiple periods of time (ranging from overnight to five years). This dynamic asset and liability analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This analysis identifies mismatches in the timing of asset and liability but does not necessarily provide an accurate indicator of interest rate risk because the assumptions used in the analysis may not reflect the actual response to market changes.

**Quantitative Analysis.** The table below sets forth, as of September 30, 2009 the estimated changes in our NPV and our annual net interest income that would result from the designated changes in the interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.

Change in Interest Rates (basis points)	Net Portfolio Value (1),(2)			Net Interest Income (3)		
	Estimated NPV	Estimated Increase (Decrease)		Estimated Net Interest Income (Dollars in thousands)	Increase (Decrease) in Estimated Net Interest Income	
		Amount	Percent		Amount	Percent
+200bp	\$689,437	\$(303,396)	(30.6)%	\$226,403	\$(10,637)	(4.5)%
0bp	\$992,833			\$237,040		
-100bp	\$979,346	\$ (13,487)	(1.4)%	\$239,988	\$ 2,948	1.2%

(1) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(2) Assumes an instantaneous uniform change in interest rates at all maturities.

(3) Assumes a gradual change

in interest rates  
over a one year  
period at all  
maturities

The table set forth above indicates at September 30, 2009 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 30.6% decrease in NPV and a \$10.6 million or 4.5% decrease in annual net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 1.4% decrease in NPV and a \$2.9 million or 1.2% increase in annual net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

As mentioned above, we retain two nationally recognized firms to compute our quarterly interest rate risk reports. Although we are confident of the accuracy of the results, certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The

**Table of Contents**

NPV and net interest income table presented above assumes the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data do not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the NPV and net interest income table provide an indication of our sensitivity to interest rate changes at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effects of changes in market interest rates on our NPV and net interest income.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes made in the Company's internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

**Item 1A. Risk Factors**

The risks set forth below, in addition to the other risks described in this quarterly report, represent material changes from those risk factors previously disclosed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on August 26, 2009, and may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this quarterly report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factors set forth below also are



**Table of Contents**

cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

**The FDIC Has Proposed A Rule That Would Require Us To Prepay Insurance Premiums**

On September 29, 2009, the Federal Deposit Insurance Corporation issued a proposed rule pursuant to which all insured depository institutions would be required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the proposed rule, this pre-payment would be due on December 30, 2009. Under the proposed rule, the assessment rate for the fourth quarter of 2009 and for 2010 would be based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 would be equal to the modified third quarter assessment rate plus an additional 3 basis points. In addition, each institution's base assessment rate for each period would be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Based on our deposits and assessment rate at September 30, 2009, we estimate that our prepayment amount will be approximately \$36.3 million. We expect that we will be able to make the prepayment from available cash on hand.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table reports information regarding repurchases of our common stock during quarter ended September 30, 2009 and the stock repurchase plan approved by our Board of Directors.

Period	Total Number of Shares Purchased	Average price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2009 through July 31, 2009	155,000	\$ 9.61	155,000	2,971,936
August 1, 2009 through August 31, 2009	43,500	9.43	43,500	2,928,436
September 1, 2009 through September 30, 2009	0	0.00		2,928,436
Total	198,500	\$ 9.57	198,500	

(1) On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding

shares of  
common stock,  
or 4,307,248  
shares. This  
stock repurchase  
program  
commenced  
upon the  
completion of  
the second  
program on  
May 7, 2008.  
This program  
has no  
expiration date  
and has  
2,928,436  
shares yet to be  
purchased as of  
September 30,  
2009.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Table of Contents**

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

The Annual Meeting of Stockholders (the Meeting ) of the Company was held on October 27, 2009. There were 114,493,520 shares of Common Stock of the Company entitled to vote at the Meeting. Investors Bancorp, MHC voted its shares in favor of all proposals. There were present at the meeting or by proxy the holders of 108,819,813 shares of Common Stock representing 95.0% of the total eligible votes to be cast. Proposal 1 was to elect three directors of the Company. Proposal 2 was to ratify the appointment of the independent registered public accountants for the fiscal year ending June 30, 2009. The result of the voting at the Meeting is as follows:

Proposal 1: The election of three directors for terms of three years each.

Patrick J. Grant	For: 107,703,571	Withheld: 1,116,242
Kevin Cummings	For: 107,775,114	Withheld: 1,044,669
Joseph H. Shepard	For: 107,704,289	Withheld: 1,115,524

Proposal 2: Ratification of the appointment of KPMG LLP as independent registered public accounting firm for the fiscal year ended June 30, 2009.

For:	108,134,366
Against:	620,026
Abstain:	65,421

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

The following exhibits are filed as part of this report:

**Table of Contents**

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

40

---

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Investors Bancorp, Inc.**

Dated: November 9, 2009

/s/ Kevin Cummings  
Kevin Cummings  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 9, 2009

/s/ Thomas F. Splaine, Jr.  
Thomas F. Splaine, Jr.  
Senior Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting  
Officer)