OCEANFIRST FINANCIAL CORP
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from __________ to __________

Commission file number 001-11713

OceanFirst Financial Corp.

(Exact name of registrant as specified in its charter)

Delaware	**22-3412577**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
975 Hooper Avenue, Toms River, NJ	**08753**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

As of November 2, 2015 there were 17,280,057 shares of the Registrant s Common Stock, par value $.01 per share, outstanding.

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OceanFirst Financial Corp.

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

FINANCIAL SUMMARY (dollars in thousands, except per share amounts)	At or for the Quarter Ended September 30, 2015	June 30, 2015	September 30, 2014
SELECTED FINANCIAL CONDITION DATA:			
Total assets	$ 2,557,898	$ 2,395,100	$ 2,308,701
Loans receivable, net	1,938,972	1,772,879	1,632,026
Deposits	1,967,771	1,761,675	1,781,227
Stockholders equity	234,688	221,535	218,650
SELECTED OPERATING DATA:			
Net interest income	19,575	18,433	18,100
Provision for loan losses	300	300	1,000
Other income	4,152	4,171	5,286
Operating expenses	16,147	14,392	14,431
Net income	4,698	5,133	5,165
Diluted earnings per share	0.28	0.31	0.31
SELECTED FINANCIAL RATIOS:			
Stockholders equity per common share	13.58	13.25	12.77
Tangible stockholders equity per common share (1)	13.46	13.25	12.77
Cash dividend per share	0.13	0.13	0.12
Stockholders equity to total assets	9.18%	9.25%	9.47%
Tangible stockholders equity to total tangible assets (1)	9.10	9.25	9.47
Return on average assets (2) (3)	0.75	0.86	0.88
Return on average stockholders equity (2) (3)	8.02	9.29	9.50
Return on average tangible stockholders equity (1) (2) (3)	8.07	9.29	9.50
Net interest rate spread	3.16	3.15	3.18
Net interest margin	3.26	3.23	3.27
Operating expenses to average assets (2) (3)	2.56	2.40	2.47
Efficiency ratio (3)	68.05	63.67	61.71
ASSET QUALITY:			
Non-performing loans	$ 24,394	$ 20,905	$ 18,392
Non-performing assets	27,656	24,262	24,858
Allowance for loan losses as a percent of total loans receivable	0.85%	0.92%	0.98%
Allowance for loan losses as a percent of total non-performing loans	68.21	79.09	88.68
Non-performing loans as a percent of total loans receivable	1.24	1.16	1.11
Non-performing assets as a percent of total assets	1.08	1.01	1.08
Wealth Management			
Assets under administration	$ 205,087	$ 216,533	$ 224,421

(1) Tangible stockholders equity at September 30, 2015 is calculated by excluding intangible assets relating to goodwill ($1,845,000) and core deposit intangible ($269,000).
(2) Ratios are annualized.
(3) Performance ratios for September 30, 2015 include the adverse impact of non-recurring merger related expenses of $1,030,000, or $714,000 net of tax benefit.

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Summary

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

Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. The Company s quarterly net interest margin has stabilized over the last year. The Company has mitigated the adverse impact of low absolute levels of interest rates by growing commercial loans, resulting in a shift in asset mix from lower-yielding securities into higher-yielding loans. Based upon current economic conditions, characterized by moderate growth and low inflation, interest rates may remain at, or close to, historically low levels with increases in the Federal funds rate expected to be gradual. The continuation of the low interest rate environment may have an adverse impact on the Company s net interest margin in future periods.

In addition to the interest rate environment, the Company s results are affected by economic conditions. Recent economic indicators point to some improvement in the U.S. economy, which expanded moderately in 2014 and continues to show modest growth again in 2015. Labor market conditions improved as the national and local unemployment rates in the first nine months of 2015 both decreased compared to prior year levels, while measures of inflation remain subdued.

Highlights of the Company s financial results and corporate activities for the three and nine months ended September 30, 2015 were as follows:

On July 31, 2015, the Company completed its acquisition of Colonial American Bank (Colonial), which added $142.4 million to assets, $121.2 million to loans, and $123.3 million to deposits, and strengthens the Bank s position in the attractive Monmouth County, New Jersey marketplace by adding offices in Middletown and Shrewsbury, New Jersey. Colonial s results of operations for August and September are included in the consolidated results for the quarter. The results of operations for the three and nine months ended September 30, 2015 included non-recurring merger related expenses which decreased net income, net of tax benefit, by $714,000 and $904,000, respectively, which reduced diluted earnings per share by $0.04 and $0.06, respectively.

A commercial loan production office was opened in Mercer County in the first quarter of 2015 to better serve the broader central New Jersey market area. Additionally, during the quarter the Bank opened a new branch in Jackson Township. This branch operates with a smaller staff by handling sales and complex transactions with universal bankers, while routine teller transactions are handled through Personal Teller Machines , an advanced technology where a live team member in a remote location performs transactions for multiple Personal Teller Machines. Additionally, on July 31, 2015, the Bank executed an agreement to purchase an existing retail branch with total deposits of $24.6 million and core deposits (all deposits except time deposits) of $20.2 million located in the Toms

River market. The purchase recently received regulatory approval and is expected to close in the first quarter of 2016.

Total assets increased to $2.558 billion at September 30, 2015, from $2.357 billion at December 31, 2014, primarily due to $142.4 million of assets from the Colonial acquisition. Loans receivable, net increased $250.1 million at September 30, 2015, as compared to December 31, 2014, which included $121.2 million of loans acquired from Colonial. Excluding Colonial, commercial loans increased $106.9 million at September 30, 3015, as compared to December 31, 2014, an annualized growth rate of 19.4%. Deposits increased by $247.6 million at September 30, 2015, as compared to December 31, 2014, which included $123.3 million of deposits acquired from Colonial. Excluding Colonial, the deposit increase included $60.7 million of business deposits, demonstrating the value of relationship based lending.

Net income for the three months ended September 30, 2015, was $4.7 million, or $0.28 per diluted share, as compared to net income of $5.2 million, or $0.31 per diluted share, for the corresponding prior year period. Net income for the three months ended September 30, 2015 includes non-recurring merger related expenses, net of tax benefit, of $714,000, which reduced diluted earnings per share by $0.04. Excluding the non-recurring merger related expenses, the increase in diluted earnings per share over the previous year period was primarily due to higher net interest income and lower provision for loan losses, partly offset by a reduction in other income and higher operating expenses.

Net interest income for the three months ended September 30, 2015 increased to $19.6 million, as compared to $18.1 million for the corresponding prior year period reflecting an increase in interest-earning assets of $181.9 million, which included $86.4 million from the acquisition of Colonial.

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Other income decreased to $4.2 million for the three months ended September 30, 2015, as compared to $5.3 million in same prior year period. The decrease was primarily due to a recognized gain on sale of equity securities of $591,000 in the prior year period compared to no gain in the current period, lower fees and service charges and lower loan servicing income. The decrease in loan servicing income was due to the sale of servicing rights on a majority of residential mortgage loans serviced for the Federal agencies and was accompanied by a comparable decrease in operating expenses. Operating expenses, excluding merger related expenses, increased $686,000 for the three months ended September 30, 2015, as compared to the same prior year period due to higher compensation and employee benefits relating to higher salary expense associated with personnel increases in commercial lending, the Colonial acquisition and the opening of two new branches.

The Company remains well-capitalized with a tangible common equity ratio of 9.10% at September 30, 2015. On July 24, 2014, the Company announced the authorization of the Board of Directors to repurchase up to 5% of the Company s outstanding common stock, or 867,923 shares. At September 30, 2015, there were 244,804 shares available for repurchase.

Analysis of Net Interest Income

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

The following tables set forth certain information relating to the Company for the three and nine months ended September 30, 2015 and 2014. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,					
	2015			2014		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Interest-earning deposits and short-term investments	$ 55,047	$ 17	0.12%	$ 56,523	$ 17	0.12%
Securities (1) and FHLB stock	468,707	1,977	1.69	529,116	2,181	1.65
Loans receivable, net (2)	1,875,458	19,976	4.26	1,631,680	17,944	4.40
Total interest-earning assets	2,399,212	21,970	3.66	2,217,319	20,142	3.63
Non-interest-earning assets	122,269			117,509		
Total assets	$ 2,521,481			$ 2,334,828		
Liabilities and Stockholders Equity						

Interest-bearing liabilities:						
Transaction deposits	$ 1,319,106	383	0.12	$ 1,279,313	262	0.08
Time deposits	244,325	779	1.28	213,627	748	1.40
Total	1,563,431	1,162	0.30	1,492,940	1,010	0.27
Borrowed funds	355,639	1,233	1.39	325,897	1,032	1.27
Total interest-bearing liabilities	1,919,070	2,395	0.50	1,818,837	2,042	0.45
Non-interest-bearing deposits	354,411			279,144		
Non-interest-bearing liabilities	13,827			19,436		
Total liabilities	2,287,308			2,117,417		
Stockholders equity	234,173			217,411		
Total liabilities and stockholders equity	$ 2,521,481			$ 2,334,828		
Net interest income		$ 19,575			$ 18,100	
Net interest rate spread (3)			3.16%			3.18%
Net interest margin (4)			3.26%			3.27%

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	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
	2015			2014		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Interest-earning deposits and short-term investments	$ 37,409	$ 29	0.10%	$ 37,572	$ 27	0.10%
Securities (1) and FHLB stock	489,671	6,133	1.67	547,983	7,038	1.71
Loans receivable, net (2)	1,781,023	56,553	4.23	1,592,864	52,720	4.41
Total interest-earning assets	2,308,103	62,715	3.62	2,178,419	59,785	3.66
Non-interest-earning assets	115,577			117,313		
Total assets	$ 2,423,680			$ 2,295,732		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Transaction deposits	$ 1,290,891	859	0.09	$ 1,286,412	873	0.09
Time deposits	220,827	2,225	1.34	214,821	2,219	1.38
Total	1,511,718	3,084	0.27	1,501,233	3,092	0.27
Borrowed funds	352,743	3,490	1.32	313,519	2,369	1.01
Total interest-bearing liabilities	1,864,461	6,574	0.47	1,814,752	5,461	0.40
Non-interest-bearing deposits	319,797			247,469		
Non-interest-bearing liabilities	14,407			16,895		
Total liabilities	2,198,665			2,079,116		
Stockholders equity	225,015			216,616		
Total liabilities and stockholders equity	$ 2,423,680			$ 2,295,732		
Net interest income		$ 56,141			$ 54,324	
Net interest rate spread (3)			3.15%			3.26%
Net interest margin (4)			3.24%			3.33%

(1) Amounts are recorded at average amortized cost.
(2) Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.

(3) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average interest-earning assets.

Comparison of Financial Condition at September 30, 2015 and December 31, 2014

Total assets increased by $201.2 million to $2.558 billion at September 30, 2015, from $2.357 billion at December 31, 2014, primarily due to $142.4 million of total assets from the Colonial acquisition. Securities, in the aggregate, decreased by $66.2 million, to $423.0 million at September 30, 2015, as compared to $489.2 million at December 31, 2014. Loans receivable, net, increased by $250.1 million, to $1.939 billion at September 30, 2015, from $1.689 billion at December 31, 2014, primarily due to $121.2 million of loans acquired from Colonial, growth in commercial loans (excluding Colonial) of $106.9 million and the purchase of two pools of performing, locally originated, one-to-four family, non-conforming mortgage loans for $22.0 million. As part of the Colonial acquisition, the Company has outstanding goodwill and core deposit intangible at September 30, 2015 of $1.8 million and $269,000, respectively.

Deposits increased by $247.6 million, to $1.968 billion at September 30, 2015, from $1.720 billion at December 31, 2014, primarily due to $123.3 million acquired from Colonial. Excluding Colonial, business deposits increased $60.7 million, demonstrating the value of relationship based lending. The deposit growth contributed to a decrease in FHLB advances of $72.2 million, to $233.0 million at September 30, 2015, from $305.2 million at December 31, 2014.

Stockholders equity increased to $234.7 million at September 30, 2015, as compared to $218.3 million at December 31, 2014, due to stock consideration of $11.8 million issued for the purchase of Colonial and net income for the period, partly offset by the repurchase of 373,594 shares of common stock for $6.5 million (average cost per share of $17.28) and the cash dividend on common stock of $6.5 million. At September 30, 2015, there were 244,804 shares available for repurchase under the stock repurchase program adopted in July of 2014.

Comparison of Operating Results for the Three and Nine Months Ended September 30, 2015 and September 30, 2014

General

Net income for the three and nine months ended September 30, 2015 was $4.7 million and $15.1 million, or $0.28 per diluted share and $0.90 per diluted share, respectively, as compared to net income of $5.2 million and $15.0 million, respectively, or $0.31 per diluted share and $0.89 per diluted share, respectively, for the corresponding prior year periods. Net income for the three and nine months ended September 30, 2015 includes non-recurring merger related expenses, net of tax benefit, of $714,000 and $904,000, respectively, which reduced diluted earnings per share by $0.04 and $0.06, respectively. Excluding the non-recurring merger related expenses, the increases in diluted earnings per share over the previous year periods were primarily due to higher net interest income and lower provisions for loan losses, partly offset by a reduction in other income and, for the three months ended September 30, 2015, higher operating expenses.

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Interest Income

Interest income for the three and nine months ended September 30, 2015 increased to $22.0 million and $62.7 million, respectively, as compared to $20.1 million and $59.8 million, respectively, in the corresponding prior year periods. Average interest-earning assets increased $181.9 million and $129.7 million, respectively, for the three and nine months ended September 30, 2015, as compared to the same prior year periods benefiting from the interest-earning assets acquired from Colonial which averaged $86.4 million and $29.1 million, respectively, for the three and nine months ended September 30, 2015. The yield on average interest-earning assets increased to 3.66% for the three months ended September 30, 2015, as compared to 3.63% for the same prior year period. The yield on average interest-earning assets decreased to 3.62% for the nine months ended September 30, 2105, as compared to 3.66% for the same prior year period. The asset yield in both current year periods benefited from a shift in the mix of interest-earning assets as average loans receivable, net, increased $243.8 million and $188.2 million, respectively, for the three and nine months ended September 30, 2015, as compared to the same prior year periods, while average interest-earning securities decreased $60.4 million and $58.3 million, respectively, as compared to the same prior year periods.

Interest Expense

Interest expense for the three and nine months ended September 30, 2015 was $2.4 million and $6.6 million, respectively, as compared to $2.0 million and $5.5 million, respectively, in the corresponding prior year periods. The cost of average interest-bearing liabilities increased to 0.50% and 0.47% for the three and nine months ended September 30, 2015, as compared to 0.45% and 0.40% in the same prior year periods as the Company extended its borrowed funds into longer-term maturities, which carry a higher cost, to better manage the Company s interest rate risk. Since December 31, 2013, the Bank has extended $183.3 million of short-term funding into 3-5 year maturities, extending the weighted average maturity of term borrowings from 1.3 years to 3.1 years at September 30, 2015. The total cost of deposits (including non-interest bearing deposits) was 0.24% and 0.22% for the three and nine months ended September 30, 2015, as compared to 0.23% and 0.24% for the corresponding prior year periods.

Net Interest Income

Net interest income for the three and nine months ended September 30, 2015 increased to $19.6 million and $56.1 million, respectively, as compared to $18.1 million and $54.3 million, respectively, in the same prior year periods, reflecting an increase in interest-earning assets, partly offset by a lower net interest margin. Average interest-earning assets increased $181.9 million and $129.7 million, respectively, for the three and nine months ended September 30, 2015, as compared to the same prior year periods. The net interest margin decreased to 3.26% and 3.24% for the three and nine months ended September 30, 2015, from 3.27% and 3.33%, respectively, for the same prior year periods. Current quarter and, to a lesser extent, year-to-date, 2015 yields and costs were impacted by fair value adjustments to interest-earning assets and interest-bearing liabilities acquired from Colonial as of the July 31, 2015 merger date.

Provision for Loan Losses

For the three and nine months ended September 30, 2015, the provision for loan losses was $300,000 and $975,000, respectively, as compared to $1.0 million and $1.8 million, respectively, for the corresponding prior year periods. Net charge-offs decreased to $196,000 and $654,000, respectively, for the three and nine months ended September 30, 2015, as compared to net charge-offs of $5.6 million and $6.4 million, respectively, in the corresponding prior year periods. In September 2014, the Company completed the bulk sale of certain non-performing residential mortgage loans which resulted in a total loan charge-off of $5.0 million. The provision exceeded the net charge-offs for both the three and nine months ended September 30, 2015 to account for loan growth. Non-performing loans increased by $3.5

million at September 30, 2015, as compared to June 30, 2015. All of the increase was related to two well-seasoned loans, a $1.4 million residential mortgage loan and a $2.3 million commercial real estate loan, for which there are no expected losses.

Other Income

For the three and nine months ended September 30, 2015, other income decreased to $4.2 million, and $12.3 million, respectively, as compared to $5.3 million and $14.0 million, respectively, in the same prior year periods. In the fourth quarter of 2014, the Company sold the servicing rights on a majority of the residential mortgage loans serviced by the Company for the Federal agencies, recognizing a gain of $408,000. Smaller, supplemental sales occurred in 2015 resulting in a gain of $111,000 for the nine months ended September 30, 2015. The sale of loan servicing caused a decrease of $164,000 and $507,000 in loan servicing income for the three and nine months ended September 30, 2015, respectively, as compared to the same prior year periods but also reduced operating expenses by similar amounts. For both the three and nine months ended September 30, 2014, the Company recognized gains of $591,000 and $938,000, respectively, on the sale of equity securities, as compared to no gains in the current year periods.

Operating Expenses

Operating expenses increased to $16.1 million and $44.3 million, respectively, for the three and nine months ended September 30, 2015, as compared to $14.4 million and $43.4 million, respectively, in the same prior year periods.

Operating expenses for the three and nine months ended September 30, 2015 include $1.0 million and $1.3 million, respectively, in non-recurring merger expenses relating to the acquisition of Colonial. Compensation and employee benefits expense increased $523,000 for the three months ended September 30, 2015, as compared to the same prior year period. The increase was primarily due to higher salary expense associated with personnel increases in commercial lending, the Colonial acquisition and the opening of two new branches. Compensation and employee benefits expenses for the nine months ended September 30, 2015 was $54,000 lower than the prior year period which included $196,000 in severance related expenses due to the Company s strategic decision to improve efficiency in the residential mortgage loan area.

Provision for Income Taxes

The provision for income taxes was $2.6 million and $8.1 million, respectively, for the three and nine months ended September 30, 2015, as compared to $2.8 million and $8.1 million, respectively, for the corresponding prior year periods. The effective tax was 35.5% and 34.9%, respectively, for the three and nine months ended September 30, 2015, as compared to 35.1% for both prior year periods.

Liquidity and Capital Resources

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

At September 30, 2015, the Company had no outstanding overnight borrowings from the FHLB compared to $111.0 million outstanding at December 31, 2014. The Company utilizes overnight borrowings to fund short-term liquidity needs. The Company had total FHLB borrowings, including the overnight borrowings, of $233.0 million and $305.2 million, respectively, at September 30, 2015 and December 31, 2014.

The Company s cash needs for the nine months ended September 30, 2015 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, proceeds from maturities of investment securities and deposit growth. The cash was principally utilized for loan originations, the purchase of loans receivable, the purchase of investment securities and to reduce borrowings. The Company s cash needs for the nine months ended September 30, 2014 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sales of mortgage loans held for sale, proceeds from maturities of investment securities, the sale of investment securities available-for-sale, deposit growth and increased total borrowings. The cash was principally utilized for loan originations and the purchase of investment and mortgage-backed securities.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments. At September 30, 2015, outstanding undrawn lines of credit totaled $302.6 million; outstanding commitments to originate loans totaled $120.7 million; and outstanding commitments to sell loans totaled $5.9 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled $113.1 million at September 30, 2015. Based upon historical experience management estimates that a significant portion of such time deposits will remain with the Company.

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

Under the Company s common stock repurchase program, shares of OceanFirst Financial Corp. common stock may be purchased in the open market and through privately negotiated transactions, from time-to-time, depending on market conditions. The repurchased shares are held as treasury stock for general corporate purposes. For the nine months ended September 30, 2015, the Company repurchased 373,594 shares of common stock at a total cost of $6.5 million, compared with repurchases of 334,630 shares at a cost of $5.6 million for the nine months ended September 30, 2014. At September 30, 2015, there were 244,804 shares available to be repurchased under the stock repurchase program adopted in July of 2014.

Cash dividends on common stock declared and paid during the first nine months of 2015 were $6.5 million, as compared to $6.1 million in the same prior year period. On October 22, 2015, the Board of Directors declared a quarterly cash dividend of thirteen cents ($0.13) per common share. The dividend is payable on November 13, 2015 to stockholders of record at the close of business on November 2, 2015.

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The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the bank subsidiary and the issuance of preferred and common stock and long-term debt. For the nine months ended September 30, 2015, the Company received dividend payments of $12.0 million from the Bank. The Company s ability to continue to pay dividends will be largely dependent upon capital distributions from the Bank, which may be adversely affected by capital constraints imposed by the applicable regulations. The Company cannot predict whether the Bank will be permitted under applicable regulations to pay a dividend to the Company. If the Bank is unable to pay dividends to the Company, the Company may not have the liquidity necessary to pay a dividend in the future or pay a dividend at the same rate as historically paid, or be able to meet current debt obligations. At September 30, 2015, OceanFirst Financial Corp. held $20.1 million in cash.

As of September 30, 2015, the Bank exceeded all regulatory capital requirements as follows (in thousands):

	Actual		Required	
	Amount	Ratio	Amount	Ratio
Tier 1 leverage	$ 227,087	8.91%	$ 101,944	4.00%
Common Equity Tier 1	227,087	12.67	80,656	4.50
Tier 1 Capital	227,087	12.67	107,541	6.00
Total Capital	243,803	13.60	143,388	8.00

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

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

At September 30, 2015, the Company maintained tangible common equity of $232.6 million, for a tangible common equity to assets ratio of 9.10%.

Off-Balance-Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customers requests for funding. These financial instruments and commitments include undrawn lines of credit and commitments to extend credit. The Company also has outstanding commitments to sell loans amounting to $5.9 million.

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The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2015 (in thousands):

Contractual Obligation	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt Obligations	$ 338,499	$ 90,026	$ 103,862	$ 122,111	$ 22,500
Commitments to Fund Undrawn Lines of Credit	302,635	302,635			
Commitments to Originate Loans	120,697	120,697			

Commitments to fund undrawn lines of credit and commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company s exposure to credit risk is represented by the contractual amount of the instruments. The commitments to fund undrawn lines of credit primarily relate to commercial loans ($181.7 million), consumer loans ($106.8 million) and construction loans ($14.1 million) at September 30, 2015.

Non-Performing Assets

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

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
Non-performing loans:		
Real estate one-to-four family	$ 5,481	$ 3,115
Commercial real estate	17,057	12,758
Consumer	1,741	1,877
Commercial and industrial	115	557
Total non-performing loans	24,394	18,307
Other real estate owned	3,262	4,664
Total non-performing assets	$ 27,656	$ 22,971
Purchased credit impaired (PCI) loans	$ 1,019	$
Delinquent loans 30-89 days	$ 8,025	$ 8,960
Allowance for loan losses as a percent of total loans receivable	0.85%	0.95%

Allowance for loan losses as a percent of total non-performing loans	68.21	89.13
Non-performing loans as a percent of total loans receivable	1.24	1.06
Non-performing assets as a percent of total assets	1.08	0.97

The increase in non-performing loans was primarily related to two well-seasoned loans, a $1.4 million residential mortgage and a $2.3 million commercial real estate loan, for which there are no expected losses. Included in the non-performing loan total at September 30, 2015 was $3.8 million of troubled debt restructured loans, as compared to $2.0 million of troubled debt restructured loans at December 31, 2014. The increase was primarily due to one restructured commercial real estate loan which was previously performing. Non-performing loans are concentrated in commercial real estate, which comprise 69.9% of the total at September 30, 2015. Non-performing loans do not include $1.0 million of purchased credit impaired loans acquired from Colonial. At September 30, 2015, the allowance for loan losses totaled $16.6 million, or 0.85% of total loans, compared with $16.3 million or 0.95% of total loans at December 31, 2014. The decline in the loan coverage ratio was largely a function of Colonial loans, which under purchase accounting requirements, were acquired at fair value, with no corresponding allowance.

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

	September 30, 2015	December 31, 2014
Special Mention	$ 20,372	$ 19,017
Substandard	37,508	34,937

The largest non-performing and Substandard loan relationship consists of two commercial real estate loans to a hotel, golf and banquet facility located in New Jersey for $6.2 million, criticized due to delinquent payments, continual losses and covenant violations. The bankruptcy court recently approved the Bank taking possession of all collateral in the fourth quarter at which time the loan will be reclassified to other real estate owned and other assets. A reserve has previously been established which reflects the best current estimate of the fair value of the collateral. The largest Special Mention loan relationship consists of a commercial real estate loan to a local fitness facility for $3.9 million. The loan is classified due to operating shortfalls in previous years but is performing as part of a restructuring agreement which extended the term of the loan.

Critical Accounting Policies

Note 1 to the Company s Audited Consolidated Financial Statements for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K), as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or fair value. Policies with respect to the methodologies used to determine the allowance for loan losses, the reserve for repurchased loans and loss sharing obligations, and judgments regarding securities and goodwill impairment are the most critical accounting policies because they are important to the presentation of the Company s financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. Goodwill will be evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, will, should, may, view, potential, or similar expressions or expressions of confidence. The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, levels of unemployment in the Bank s lending area, real estate market values in the Bank s lending area, future natural disasters and increases to flood insurance premiums, the level of prepayments on loans and mortgage-backed securities, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company s market area and accounting principles and guidelines. These risks and uncertainties are further discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent securities filings and should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business, and Item 1A, Risk Factors, of the Company s 2014 Form 10-K and Item 1A, Risk Factors, of this 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s interest rate sensitivity is monitored through the use of an interest rate risk (IRR) model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at September 30, 2015, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown.

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At September 30, 2015, the Company s one-year gap was negative 0.59% as compared to negative 2.73% at December 31, 2014.

At September 30, 2015 (dollars in thousands)	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total
Interest-earning assets: (1)						
Interest-earning deposits and short-term investments	$ 26,880	$	$	$	$	$ 26,880
Investment securities	65,425	34,809	42,185	5,849	340	148,608
Mortgage-backed securities	29,694	46,353	85,461	65,104	58,515	285,127
FHLB stock					15,970	15,970
Loans receivable (2)	330,496	409,128	547,795	359,286	307,995	1,954,700
Total interest-earning assets	452,495	490,290	675,441	430,239	382,820	2,431,285
Interest-bearing liabilities:						
Money market deposit accounts	28,711	10,279	29,771	24,367	58,529	151,657
Savings accounts	71,153	23,706	52,590	39,865	122,695	310,009
Interest-bearing checking accounts	518,050	47,823	100,589	79,974	137,504	883,940
Time deposits	43,233	101,671	52,465	61,303	1,414	260,086
FHLB advances	5,621	1,412	103,862	122,111		233,006
Securities sold under agreements to repurchase and other borrowings	105,493					105,493
Total interest-bearing liabilities	772,261	184,891	339,277	327,620	320,142	1,944,191
Interest sensitivity gap (3)	$ (319,766)	$ 305,399	$ 336,164	$ 102,619	$ 62,678	$ 487,094
Cumulative interest sensitivity gap	$ (319,766)	$ (14,367)	$ 321,797	$ 424,416	$ 487,094	$ 487,094
Cumulative interest sensitivity gap as a percent of total interest- earning assets	(13.15)%	(0.59)%	13.24%	17.46%	20.03%	20.03%

(1)

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

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

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

Additionally, the table below sets forth the Company s exposure to interest rate risk as measured by the change in economic value of equity (EVE) and net interest income under varying rate shocks as of September 30, 2015 and December 31, 2014. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company s interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained in the 2014 Form 10-K.

	September 30, 2015					December 31, 2014				
Economic Value of Equity				Net Interest Income		Economic Value of Equity			Net Interest Income	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	% Change	EVE Ratio	Amount	% Change	Amount	% Change	EVE Ratio	Amount	% Change
(dollars in thousands)										
300	$ 259,443	(13.9)%	10.9%	$ 75,854	(3.3)%	$ 242,356	(12.9)%	11.0%	$ 68,025	(4.8)%
200	281,269	(6.6)	11.4	77,699	(0.9)	260,338	(6.4)	11.5	70,013	(2.0)
100	295,631	(1.9)	11.7	78,387	(0.0)	272,499	(2.1)	11.7	70,992	(0.6)
Static	301,217		11.7	78,418		278,222		11.7	71,420	
(100)	295,308	(2.0)	11.2	74,133	(5.5)	275,644	(0.9)	11.3	67,779	(5.1)

Item 4. Controls and Procedures

The Company s management, including the Company s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company s internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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OceanFirst Financial Corp.

Consolidated Statements of Financial Condition

(dollars in thousands, except per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$ 50,576	$ 36,117
Securities available-for-sale, at estimated fair value	30,108	19,804
Securities held-to-maturity, net (estimated fair value of $400,852 at September 30, 2015 and $474,215 at December 31, 2014)	392,932	469,417
Federal Home Loan Bank of New York stock, at cost	15,970	19,170
Loans receivable, net	1,938,972	1,688,846
Mortgage loans held for sale	2,306	4,201
Interest and dividends receivable	5,978	5,506
Other real estate owned	3,262	4,664
Premises and equipment, net	28,721	24,738
Servicing asset	639	701
Bank Owned Life Insurance	57,206	56,048
Deferred tax asset	18,298	15,594
Other assets	10,816	11,908
Core deposit intangible	269	
Goodwill	1,845	
Total assets	$ 2,557,898	$ 2,356,714
Liabilities and Stockholders Equity		
Deposits	$ 1,967,771	$ 1,720,135
Securities sold under agreements to repurchase with retail customers	77,993	67,812
Federal Home Loan Bank advances	233,006	305,238
Other borrowings	27,500	27,500
Advances by borrowers for taxes and insurance	7,808	6,323
Other liabilities	9,132	11,447
Total liabilities	2,323,210	2,138,455
Stockholders equity:		
Preferred stock, $.01 par value, $1,000 liquidation preference, 5,000,000 shares authorized, no shares issued		
	336	336

Common stock, $.01 par value, 55,000,000 shares authorized, 33,566,772 shares issued and 17,276,677 and 16,901,653 shares outstanding at September 30, 2015 and December 31, 2014, respectively		
Additional paid-in capital	269,332	265,260
Retained earnings	226,115	217,714
Accumulated other comprehensive loss	(6,326)	(7,109)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(3,116)	(3,330)
Treasury stock, 16,290,095 and 16,665,119 shares at September 30, 2015 and December 31, 2014, respectively	(251,653)	(254,612)
Common stock acquired by Deferred Compensation Plan	(311)	(304)
Deferred Compensation Plan Liability	311	304
Total stockholders equity	234,688	218,259
Total liabilities and stockholders equity	$ 2,557,898	$ 2,356,714

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	$ 19,976	$ 17,944	$ 56,553	$ 52,720
Mortgage-backed securities	1,460	1,642	4,602	5,136
Investment securities and other	534	556	1,560	1,929
Total interest income	21,970	20,142	62,715	59,785
Interest expense:				
Deposits	1,162	1,010	3,084	3,092
Borrowed funds	1,233	1,032	3,490	2,369
Total interest expense	2,395	2,042	6,574	5,461
Net interest income	19,575	18,100	56,141	54,324
Provision for loan losses	300	1,000	975	1,805
Net interest income after provision for loan losses	19,275	17,100	55,166	52,519
Other income:				
Bankcard services revenue	929	914	2,611	2,603
Wealth management revenue	501	579	1,657	1,727
Fees and service charges	2,091	2,379	6,042	6,484
Loan servicing income	75	239	186	693
Net gain on sale of loan servicing			111	
Net gain on sales of loans available-for-sale	260	226	637	577
Net gain on sale of investment securities available-for-sale		591		938
Net loss from other real estate operations	(59)	(24)	(111)	(164)
Income from Bank Owned Life Insurance	348	382	1,158	1,097
Other	7		18	2
Total other income	4,152	5,286	12,309	13,957

Operating expenses:				
Compensation and employee benefits	8,269	7,746	23,508	23,562
Occupancy	1,508	1,327	4,204	4,154
Equipment	951	879	2,562	2,403
Marketing	398	294	1,087	1,436
Federal deposit insurance	541	534	1,545	1,618
Data processing	1,193	1,111	3,382	3,168
Check card processing	490	518	1,388	1,458
Professional fees	390	704	1,324	1,602
Other operating expense	1,369	1,318	4,005	3,967
Amortization of core deposit intangible	8		8	
Merger related expenses	1,030		1,264	
Total operating expenses	16,147	14,431	44,277	43,368
Income before provision for income taxes	7,280	7,955	23,198	23,108
Provision for income taxes	2,582	2,790	8,105	8,120
Net income	$ 4,698	$ 5,165	$ 15,093	$ 14,988
Basic earnings per share	$ 0.28	$ 0.31	$ 0.91	$ 0.89
Diluted earnings per share	$ 0.28	$ 0.31	$ 0.90	$ 0.89
Average basic shares outstanding	16,733	16,623	16,522	16,748
Average diluted shares outstanding	16,953	16,704	16,746	16,865

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net income	$ 4,698	$ 5,165	$ 15,093	$ 14,988
Other comprehensive income:				
Unrealized gain (loss) on securities (net of tax expense of $(27) and $(125) in 2015 and tax benefit of $100 and $386 in 2014)	40	(144)	181	(558)
Accretion of unrealized loss on securities reclassified to held-to-maturity (net of tax expense of $152 and $415 in 2015 and $142 and $375 in 2014, respectively)	221	206	602	542
Reclassification adjustment for gains included in net income (net of tax expense of $241 and $383 in 2014)		(349)		(554)
Total comprehensive income	$ 4,959	$ 4,878	$ 15,876	$ 14,418

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

Consolidated Statements of

Changes in Stockholders Equity (Unaudited)

(in thousands, except per share amounts)

Nine months ended September 30, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Employee Stock Ownership Plan	Treasury Stock	Common Stock Acquired by Deferred Compensation Plan	Deferred Compensation Plan Liability	Total
Balance at December 31, 2013	$	$ 336	$ 263,319	$ 206,201	$ (6,619)	$ (3,616)	$ (245,271)	$ (665)	$ 665	$ 214,350
Net income				14,988						14,988
Other comprehensive loss, net of tax					(570)					(570)
Tax benefit of stock plans			57							57
Stock awards			678							678
Treasury stock allocated to restricted stock plan			678	(99)			(579)			
Purchased 334,630 shares of common stock							(5,562)			(5,562)
Allocation of ESOP stock			216			215				431
Cash dividend $0.36 per share				(6,071)						(6,071)
Exercise of stock options				(67)			416			349
Sale of stock for the deferred compensation plan								363	(363)	

Balance at September 30, 2014	$	$ 336	$ 264,948	$ 214,952	$ (7,189)	$ (3,401)	$ (250,996)	$ (302)	$ 302	$ 218,650
Balance at December 31, 2014	$	$ 336	$ 265,260	$ 217,714	$ (7,109)	$ (3,330)	$ (254,612)	$ (304)	$ 304	$ 218,259
Net income				15,093						15,093
Other comprehensive income, net of tax					783					783
Tax benefit of stock plans			13							13
Stock awards			985							985
Treasury stock allocated to restricted stock plan			1,215	(142)			(1,073)			
Issued 660,998 treasury shares to finance acquisition										