

OCEANFIRST FINANCIAL CORP

Form 10-K

March 14, 2006

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

.. 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: 0-27428

OceanFirst Financial Corp.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

incorporation or organization)

975 Hooper Avenue, Toms River, New Jersey 08753

(Address of principal executive offices)

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

22-3412577
(I.R.S. Employer

Identification No.)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

(Title of class)

The Nasdaq Stock Exchange

(Name of each exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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 No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, i.e., persons other than the directors and executive officers of the registrant, was \$267,802,550, based upon the closing price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's Common Stock as of March 6, 2006 was 12,656,722.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the year ended December 31, 2005, are incorporated by reference into Part II of this Form 10-K.

Portions of the Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents**INDEX**

	PAGE
<u>PART I</u>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	29
Item 1B. <u>Unresolved Staff Comments</u>	30
Item 2. <u>Properties</u>	31
Item 3. <u>Legal Proceedings</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	33
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial Data</u>	33
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 8. <u>Financial Statements and Supplementary Data</u>	34
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	34
Item 9A. <u>Controls and Procedures</u>	34
Item 9B. <u>Other Information</u>	34
<u>PART III</u>	
Item 10. <u>Directors and Executive Officers of the Registrant</u>	35
Item 11. <u>Executive Compensation</u>	35
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	35
Item 13. <u>Certain Relationships and Related Transactions</u>	35
Item 14. <u>Principal Accounting Fees and Services</u>	35
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	36
<u>Signatures</u>	38

Table of Contents

PART I

Item 1. Business

General

OceanFirst Financial Corp. (the **Company**) was organized by the Board of Directors of OceanFirst Bank (the **Bank**) for the purpose of acquiring all of the capital stock of the Bank issued in connection with the Bank's conversion from mutual to stock form, which was completed on July 2, 1996. On August 18, 2000 the Bank acquired Columbia Home Loans, LLC (**Columbia**), a mortgage banking company based in Westchester County, New York in a transaction accounted for as a purchase. On July 15, 2004, Columbia completed the acquisition of a consumer direct lending operation based in Kenilworth, New Jersey. At December 31, 2005, the Company had consolidated total assets of \$2.0 billion and total stockholders' equity of \$138.8 million. The Company was incorporated under Delaware law and is a savings and loan holding company subject to regulation by the Office of Thrift Supervision (**OTS**), the Federal Deposit Insurance Corporation (**FDIC**) and the Securities and Exchange Commission (**SEC**). Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

The Bank was originally founded as a state-chartered building and loan association in 1902, and converted to a federal savings and loan association in 1945. The Bank became a Federally-chartered mutual savings bank in 1989. The Bank's principal business has been and continues to be attracting retail deposits from the general public in the communities surrounding its branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in single-family, owner-occupied residential mortgage loans. To a lesser extent, the Bank invests in other types of loans including commercial real estate, multi-family, construction, consumer and commercial loans. The Bank also invests in mortgage-backed securities, securities issued by the U.S. Government and agencies thereof, corporate securities and other investments permitted by applicable law and regulations. As a mortgage banking subsidiary of the Bank, Columbia originates, sells and services a full product line of residential mortgage loans. Columbia sells virtually all loan production into the secondary market, except that the Bank will often purchase adjustable-rate and fixed-rate mortgage loans originated by Columbia for inclusion in its loan portfolio. The Bank also periodically sells part of its mortgage loan production in order to manage interest rate risk and liquidity. Presently, servicing rights are retained in connection with most loan sales. The Bank's revenues are derived principally from interest on its loans, and to a lesser extent, interest on its investment and mortgage-backed securities. The Bank also receives income from fees and service charges on loan and deposit products and from the sale of trust and asset management services and alternative investment products, e.g., mutual funds, annuities and life insurance. The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities (**MBS**), proceeds from the sale of loans, Federal Home Loan Bank (**FHLB**) advances and other borrowings and to a lesser extent, investment maturities.

The Company's Internet website address is www.oceanfirst.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through its website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company's Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

In addition to historical information, this Form 10-K contains certain forward-looking statements 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**, or similar expressions. The Company's ability to predict results or the actual effect of its 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, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for

Table of Contents

loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties 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.

Market Area and Competition

The Bank is a community-oriented financial institution, offering a wide variety of financial services to meet the needs of the communities it serves. The Bank conducts its business through an administrative and branch office located in Toms River, New Jersey, and seventeen additional branch offices. Fourteen of the eighteen branch offices are located in Ocean County with three located in Monmouth County and one located in Middlesex County, New Jersey. The Bank's deposit gathering base is concentrated in the communities surrounding its offices. While the Bank's lending activities are concentrated in the sub markets served by its branch office network, lending activities extend throughout New Jersey, and to a lesser extent, adjacent markets served by Columbia. Lending activities are supported by loan production offices in Red Bank and Kenilworth, New Jersey. Columbia's loan volume is primarily derived from the tri-state area around New York City. Columbia conducts business through an administrative and production office in Valhalla, New York and satellite production offices in adjacent markets.

The Bank is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey, which is located along the central New Jersey shore. Ocean County is among the fastest growing population areas in New Jersey and has a significant number of retired residents who have traditionally provided the Bank with a stable source of deposit funds. The economy in the Bank's primary market area is based upon a mixture of service and retail trade. Other employment is provided by a variety of wholesale trade, manufacturing, Federal, state and local government, hospitals and utilities. The area is also home to commuters working in New Jersey suburban areas around New York and Philadelphia.

The Bank faces significant competition both in making loans and in attracting deposits. The State of New Jersey has a high density of financial institutions, many of which are branches of significantly larger institutions headquartered out-of-market which have greater financial resources than the Bank, all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, credit unions, mortgage banking companies and insurance companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions although the Bank also faces increasing competition for deposits from short-term money market funds, other corporate and government securities funds, internet only providers and from other financial service institutions such as brokerage firms and insurance companies.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of conventional first mortgage loans secured by one-to-four family residences. At December 31, 2005, the Bank had total loans outstanding of \$1.700 billion, of which \$1.187 billion or 69.8% of total loans were one-to-four family, residential mortgage loans. The remainder of the portfolio consisted of \$278.9 million of commercial real estate, multi-family and land loans, or 16.4% of total loans; \$22.7 million of real estate construction loans, or 1.3% of total loans; \$146.9 million of consumer loans, primarily home equity loans and lines of credit, or 8.6% of total loans; and \$64.3 million of commercial loans, or 3.8% of total loans. Included in total loans are \$32.0 million in loans held for sale at December 31, 2005. At that same date, 57.4% of the Bank's total loans had adjustable interest rates.

Table of Contents

The types of loans that the Bank may originate are subject to federal and state law and regulations. Interest rates charged by the Bank on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by, among other things, economic conditions, monetary policies of the Federal government, including the Federal Reserve Board, and legislative tax policies.

The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	2005		2004		At December 31 2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)										
Real estate:										
One-to-four family	\$ 1,187,226	69.83%	\$ 1,126,585	72.70%	\$ 1,081,901	75.50%	\$ 1,101,904	77.94%	\$ 1,110,282	82.22%
Commercial real estate, multi family and land	278,922	16.41	243,299	15.70	205,066	14.31	146,149	10.34	112,318	8.32
Construction	22,739	1.34	19,189	1.23	11,274	.79	11,079	.78	9,082	.67
Consumer (1)	146,911	8.64	99,279	6.41	81,455	5.68	80,218	5.67	67,039	4.96
Commercial	64,300	3.78	61,290	3.96	53,231	3.72	74,545	5.27	51,756	3.83
Total loans	1,700,098	100.00%	1,549,642	100.00%	1,432,927	100.00%	1,413,895	100.00%	1,350,477	100.00%
Loans in process	(7,646)		(5,970)		(3,829)		(3,531)		(2,458)	
Deferred origination costs, net	4,596		3,888		4,136		2,239		1,048	
Unamortized (discount) premium, net			(4)		(5)		(5)		1	
Allowance for loan losses	(10,460)		(10,688)		(10,802)		(10,074)		(10,351)	
Total loans, net	1,686,588		1,536,868		1,422,427		1,402,524		1,338,717	
Less:										
Mortgage loans held for sale	32,044		63,961		33,207		66,626		37,828	
Loans receivable, net	\$ 1,654,544		\$ 1,472,907		\$ 1,389,220		\$ 1,335,898		\$ 1,300,889	
Total loans:										
Adjustable rate	\$ 975,672	57.39%	\$ 849,034	54.79%	\$ 670,398	46.79%	\$ 622,348	44.02%	\$ 591,724	43.82%
Fixed rate	724,426	42.61	700,608	45.21	762,529	53.21	791,547	55.98	758,753	56.18
	\$ 1,700,098	100.00%	\$ 1,549,642	100.00%	\$ 1,432,927	100.00%	\$ 1,413,895	100.00%	\$ 1,350,477	100.00%

(1) Consists primarily of home equity loans and lines of credit, and to a lesser extent, loans on savings accounts, automobile and student loans.

Table of Contents

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 2005. The table does not include principal repayments. Principal repayments, including prepayments on total loans was \$444.0 million, \$443.6 million and \$519.2 million for the years ended December 31, 2005, 2004 and 2003, respectively.

	At December 31, 2005					Total Loans Receivable
	One-to Four- Family	Commercial real estate, multi-family and land	Construction (In thousands)	Consumer	Commercial	
One year or less	\$ 14,880	\$ 49,013	\$ 22,739	\$ 979	\$ 18,625	\$ 106,236
After one year:						
More than one year to three years	4,288	45,389		2,018	15,560	67,255
More than three years to five years	4,766	83,665		5,521	18,061	112,013
More than five years to ten years	58,461	67,768		23,504	10,907	160,640
More than ten years to twenty years	291,319	23,276		114,889	1,147	430,631
More than twenty years	813,512	9,811				823,323
Total due after December 31, 2006	1,172,346	229,909		145,932	45,675	1,593,862
Total amount due	\$ 1,187,226	\$ 278,922	\$ 22,739	\$ 146,911	\$ 64,300	1,700,098
Loans in process						(7,646)
Deferred origination costs, net						4,596
Allowance for loan losses						(10,460)
Total loans, net						1,686,588
Less: Mortgage loans held for sale						32,044
Loans receivable, net						\$ 1,654,544