

Kearny Financial Corp.
Form 10-Q
January 30, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 000-51093

KEARNY FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

22-3803741
(I.R.S. Employer
Identification Number)

120 Passaic Ave., Fairfield, New Jersey
(Address of principal executive offices)

07004-3510
(Zip Code)

Registrant's telephone number, including area code

973-244-4500

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 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 No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: January 23, 2015.

\$0.10 par value common stock — 67,375,247 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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SIGNATURES



KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share and Per Share Data)

	December 31, 2014 (Unaudited)	June 30, 2014
Assets		
Cash and amounts due from depository institutions	\$ 14,133	\$ 14,403
Interest-bearing deposits in other banks	82,303	120,631
Cash and Cash Equivalents	96,436	135,034
Debt securities available for sale (amortized cost \$423,451 and \$411,228)	420,458	407,898
Debt securities held to maturity (fair value \$218,064 and \$213,472)	219,906	216,414
Loans receivable, including unamortized yield adjustments of \$(1,439) and \$(1,397)	1,814,071	1,741,471
Less allowance for loan losses	(12,584)	(12,387)
Net Loans Receivable	1,801,487	1,729,084
Mortgage-backed securities available for sale (amortized cost \$387,508 and \$432,802)	391,548	437,223
Mortgage-backed securities held to maturity (fair value \$325,709 and \$293,781)	322,529	295,658
Premises and equipment	39,584	40,105
Federal Home Loan Bank of New York ("FHLB") stock	27,382	25,990
Accrued interest receivable	9,059	9,013
Goodwill	108,591	108,591
Bank owned life insurance	90,126	88,820
Deferred income tax assets, net	9,998	10,314
Other assets	10,765	5,865
Total Assets	\$ 3,547,869	\$ 3,510,009
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$ 208,457	\$ 224,054
Interest-bearing	2,256,388	2,255,887
Total Deposits	2,464,845	2,479,941
Borrowings	563,002	512,257
Advance payments by borrowers for taxes	8,636	9,001
Other liabilities	18,152	14,134
Total Liabilities	3,054,635	3,015,333
Stockholders' Equity		
Preferred stock, \$0.10 par value, 25,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.10 par value, 75,000,000 shares authorized; 73,781,587 issued;	7,378	7,378

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67,375,247 and 67,267,865 outstanding, respectively		
Paid-in capital	225,404	231,870
Retained earnings	341,447	336,355
Unearned Employee Stock Ownership Plan shares;		
315,195 shares and 387,924 shares, respectively	(3,152)	(3,879)
Treasury stock, at cost; 6,406,340 shares and 6,513,722 shares, respectively	(73,535)	(74,768)
Accumulated other comprehensive loss	(4,308)	(2,280)
Total Stockholders' Equity	493,234	494,676
Total Liabilities and Stockholders' Equity	\$ 3,547,869	\$ 3,510,009

See notes to unaudited consolidated financial statements

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Interest Income				
Loans	\$18,648	\$16,509	\$37,053	\$32,325
Mortgage-backed securities	4,654	5,505	9,430	11,059
Debt securities:				
Taxable	1,792	1,221	3,527	2,499
Tax-exempt	490	460	975	914
Other interest-earning assets	328	238	625	436
Total Interest Income	25,912	23,933	51,610	47,233
Interest Expense				
Deposits	3,972	3,594	7,818	7,226
Borrowings	2,367	1,864	4,694	3,336
Total Interest Expense	6,339	5,458	12,512	10,562
Net Interest Income	19,573	18,475	39,098	36,671
Provision for Loan Losses	1,732	559	2,590	1,727
Net Interest Income after Provision for				
Loan Losses	17,841	17,916	36,508	34,944
Non-Interest Income				
Fees and service charges	731	630	1,430	1,321
Gain on sale of securities	7	226	7	226
Gain on sale of loans	9	-	9	53
Gain (loss) on sale and write down of real estate owned	5	-	(146)	1
Income from bank owned life insurance	654	707	1,306	1,409
Electronic banking fees and charges	258	296	542	640
Miscellaneous	54	70	150	140
Total Non-Interest Income	1,718	1,929	3,298	3,790
Non-Interest Expense				
Salaries and employee benefits	9,588	8,723	19,664	17,676
Net occupancy expense of premises	1,795	1,607	3,437	3,269
Equipment and systems	2,034	2,055	3,964	3,929
Advertising and marketing	228	308	376	559
Federal deposit insurance premium	607	618	1,196	1,130
Directors' compensation	165	172	361	344
Miscellaneous	2,103	2,074	4,293	3,932
Total Non-Interest Expense	16,520	15,557	33,291	30,839
Income before Income Taxes	3,039	4,288	6,515	7,895

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Income taxes	870	1,301	1,423	2,322
Net Income	\$2,169	\$2,987	\$5,092	\$5,573

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Net Income per Common Share (EPS)				
Basic	\$0.03	\$0.05	\$0.08	\$0.08
Diluted	\$0.03	\$0.05	\$0.08	\$0.08
Weighted Average Number of				
Common Shares Outstanding				
Basic	67,042	65,767	67,009	65,851
Diluted	67,055	65,767	67,185	65,851
Dividends Declared Per Common Share	\$-	\$-	\$-	\$-

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands, Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2014	2013	December 31, 2014	2013
Net Income	\$2,169	\$2,987	\$5,092	\$5,573
Other Comprehensive Loss:				
Net unrealized gain (loss) on securities available for sale, net of deferred income tax (benefit) expense of:				
2014 \$866, \$(175);				
2013 \$(4,336), \$(3,802)	2,169	(6,993)	139	(6,050)
Net gain on securities transferred from available for sale to held to maturity, net of deferred income tax (benefit) expense of:				
2014 \$0, \$0;				
2013 \$0, \$0	-	-	2	-
Net realized gain on securities available for sale, net of income tax expense of:				
2014 \$(3), \$(3);				
2013 \$(93), \$(93)	(4)	(133)	(4)	(133)
Fair value adjustments on derivatives, net of deferred income tax expense (benefit) of:				
2014 \$(2,551), \$(1,362);				
2013 \$1,059, \$(96)	(3,694)	1,532	(1,972)	(140)
Benefit plan adjustments, net of deferred income tax (benefit) expense of:				
2014 \$8, \$(132);				
2013 \$4, \$337	11	7	(193)	488

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Total Other Comprehensive Loss	(1,518)	(5,587)	(2,028)	(5,835)
Total Comprehensive Income (Loss)	\$651	\$(2,600)	\$3,064	\$(262)

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended December 31, 2013

(In Thousands, Unaudited)

			Unearned			Accumulated		Total
	Common Stock Shares	Stock Amount	Paid-In Capital	Retained Earnings	ESOP Shares	Treasury Stock	Other Comprehensive Loss	
Balance - June 30, 2013	66,501	\$7,274	\$215,722	\$326,167	\$(5,334)	\$(71,983)	\$(4,139)	\$467,707
Net Income	-	-	-	5,573	-	-	-	5,573
Other comprehensive loss, net of income								
tax benefit	-	-	-	-	-	-	(5,835)	(5,835)
ESOP shares committed to be released								
(72 shares)	-	-	31	-	727	-	-	758
Stock option expense	-	-	20	-	-	-	-	20
Treasury stock purchases	(366)	-	-	-	-	(3,792)	-	(3,792)
Restricted stock plan shares earned								
(8 shares)	-	-	84	-	-	-	-	84
Balance - December 31, 2013	\$66,135	\$7,274	\$215,857	\$331,740	\$(4,607)	\$(75,775)	\$(9,974)	\$464,515

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended December 31, 2014

(In Thousands, Unaudited)

	Common Stock		Paid-In	Retained	Unearned		Accumulated	
	Shares	Amount	Capital	Earnings	Shares	Treasury	Comprehensive	Total
						Stock	Income	
Balance - June 30, 2014	67,268	\$7,378	\$231,870	\$336,355	\$(3,879)	\$(74,768)	\$ (2,280)	\$494,676
Net Income	-	-	-	5,092	-	-	-	5,092
Other comprehensive loss, net of income								
tax benefit	-	-	-	-	-	-	(2,028)	(2,028)
ESOP shares committed to be released								
(72 shares)	-	-	326	-	727	-	-	1,053
Stock option expense	-	-	100	-	-	-	-	100
Treasury stock reissued	107	-	132	-	-	1,233	-	1,365
Restricted stock plan shares earned								
(14 shares)	-	-	164	-	-	-	-	164
Settlement of stock options with cash								
in lieu of shares	-	-	(7,188)	-	-	-	-	(7,188)
Balance - December 31, 2014	\$67,375	\$7,378	\$225,404	\$341,447	\$(3,152)	\$(73,535)	\$ (4,308)	\$493,234

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

	Six Months Ended	
	December 31, 2014	2013
Cash Flows from Operating Activities:		
Net income	\$5,092	\$5,573
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,503	1,262
Net amortization of premiums, discounts and loan fees and costs	1,185	1,663
Deferred income taxes	1,988	186
Amortization of intangible assets	78	64
Amortization of benefit plans' unrecognized net loss	39	22
Provision for loan losses	2,590	1,727
Loss (gain) on write-down and sales of real estate owned	146	(1)
Realized gain on sale of loans	(9)	(53)
Proceeds from sale of loans	133	496
Realized loss on sale of debt securities available for sale	594	1,294
Realized gain on sale of mortgage-backed securities available for sale	(601)	(1,520)
Realized gain on disposition of premises and equipment	(25)	-
Increase in cash surrender value of bank owned life insurance	(1,306)	(1,409)
ESOP, stock option plan and restricted stock plan expenses	1,317	862
(Increase) decrease in interest receivable	(46)	103
Increase in other assets	(8,077)	(1,361)
Increase in interest payable	37	113
Increase in other liabilities	3,654	991
Net Cash Provided by Operating Activities	8,292	10,012
Cash Flows from Investing Activities:		
Purchase of debt securities available for sale	(52,528)	(55,217)
Proceeds from sale of debt securities available for sale	39,444	54,075
Proceeds from repayments of debt securities available for sale	288	455
Purchase of debt securities held to maturity	(6,243)	(2,530)
Proceeds from calls and maturities of debt securities held to maturity	2,530	270
Proceeds from repayments of debt securities held to maturity	116	847
Purchase of loans	(32,050)	(58,319)
Net increase in loans receivable	(44,562)	(137,695)
Proceeds from sale of real estate owned	1,047	403
Purchases of mortgage-backed securities available for sale	(10,384)	(17,061)
Principal repayments on mortgage-backed securities available for sale	37,613	70,719

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Proceeds from sale of mortgage-backed securities available for sale	17,780	53,613
Purchases of mortgage-backed securities held to maturity	(33,210)	-
Principal repayments on mortgage-backed securities held to maturity	6,045	827
Purchase of FHLB stock	(6,930)	(14,445)
Redemption of FHLB stock	5,538	9,047
Proceeds from cash settlement of premises and equipment	49	-
Additions to premises and equipment	(1,005)	(1,580)
Net Cash Provided by Investing Activities	\$(76,462)	\$(96,591)

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands, Unaudited)

	Six Months Ended	
	December 31,	
	2014	2013
Cash Flows from Financing Activities:		
Net (decrease) increase in deposits	(14,995)	7,085
Repayment of term FHLB advances	(678,047)	(275,043)
Proceeds from term FHLB advances	750,000	400,000
Net change in overnight borrowings	(17,000)	(5,000)
Decrease in other short-term borrowings	(4,198)	(10,775)
(Decrease) increase in advance payments by borrowers for taxes	(365)	362
Purchase of common stock of Kearny Financial Corp. for treasury	-	(3,792)
Issuance of common stock of Kearny Financial Corp. from treasury	1,365	-
Payment of cash for exercise of stock options	(7,188)	-
Net Cash Provided by Financing Activities	29,572	112,837
Net (Decrease) Increase in Cash and Cash Equivalents	(38,598)	26,258
Cash and Cash equivalents - Beginning	135,034	127,034
Cash and Cash equivalents - Ending	\$96,436	\$153,292
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	\$1,806	\$2,341
Interest	\$12,424	\$10,448
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	\$1,465	\$720

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION

The unaudited consolidated financial statements include the accounts of Kearny Financial Corp. (the “Company”), its wholly-owned subsidiary, Kearny Bank (the “Bank”) and the Bank’s wholly-owned subsidiaries, CJB Investment Corp. and KFS Financial Services, Inc. and its wholly-owned subsidiary, KFS Insurance Services, Inc. The Company conducts its business principally through the Bank. Management prepared the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), including the elimination of all significant inter-company accounts and transactions during consolidation.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited consolidated financial statements have been included. The results of operations for the three- month and six-month periods ended December 31, 2014, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statement of financial condition for June 30, 2014 was derived from the Company’s 2014 annual report on Form 10-K. That data, along with the interim unaudited financial information presented in the consolidated statements of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company’s 2014 annual report on Form 10-K.

3. NET INCOME PER COMMON SHARE (“EPS”)

Basic EPS is based on the weighted average number of common shares actually outstanding including restricted stock awards (see following paragraph) adjusted for Employee Stock Ownership Plan (“ESOP”) shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. Shares issued and reacquired during any period are weighted for the portion of the period they were outstanding.

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The Financial Accounting Standards Board (“FASB”) has issued guidance on determining whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied.

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

	Three Months Ended			Six Months Ended		
	December 31, 2014		Per	December 31, 2014		Per
	Income	Shares	Share	Income	Shares	Share
	(Numerator) (Denominator)		Amount	(Numerator) (Denominator)		Amount
	(In Thousands, Except Per Share Data)		(In Thousands, Except Per Share Data)	(In Thousands, Except Per Share Data)		(In Thousands, Except Per Share Data)
Net income	\$2,169			\$5,092		
Basic earnings per share, income						
available to common stockholders	\$2,169	67,042	\$ 0.03	\$5,092	67,009	\$ 0.08
Effect of dilutive securities:						
Stock options	-	13		-	176	
	\$2,169	67,055	\$ 0.03	\$5,092	67,185	\$ 0.08

	Three Months Ended			Six Months Ended		
	December 31, 2013			December 31, 2013		
			Per			Per
	Income	Shares	Share	Income	Shares	Share
	(Numerator)		Amount	(Numerator)		Amount
	(Denominator)		(In Thousands, Except Per Share Data)	(Denominator)		(In Thousands, Except Per Share Data)
Net income	\$2,987			\$5,573		
Basic earnings per share, income						
available to common stockholders	\$2,987	65,767	\$ 0.05	\$5,573	65,851	\$ 0.08
Effect of dilutive securities:						
Stock options	-	-		-	-	
	\$2,987	65,767	\$ 0.05	\$5,573	65,851	\$ 0.08

During the three and six months ended December 31, 2014, the average number of options which were considered anti-dilutive totaled approximately 185,000 and 185,000, respectively. During the three and six months ended December 31, 2013, the average number of options which were considered anti-dilutive totaled approximately 3,053,000 and 3,122,000, respectively.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of December 31, 2014, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation identified the following subsequent event that warranted disclosure in these consolidated financial statements:

On January 21, 2015, the Bank changed its name from Kearny Federal Savings Bank to Kearny Bank.

The evaluation was conducted through the date this document was filed.

5. PLAN OF CONVERSION AND REORGANIZATION

On September 4, 2014, the Boards of Directors of Kearny MHC (the majority stockholder of the Company), the Company and the Bank adopted a Plan of Conversion and Reorganization (the "Plan"). Pursuant to the Plan, Kearny MHC will convert from the mutual holding company form of organization to the fully public form. Kearny MHC will be merged into the Company, and Kearny MHC will no longer exist. The Company will then merge into a new

Maryland corporation, also named Kearny Financial Corp., which will become the holding company for the Bank.

As part of the conversion, Kearny MHC's ownership interest in the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represent the remaining ownership interest in the Company, will be exchanged for new shares of common stock of the new Maryland corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same aggregate percentage of common stock of the new Maryland corporation that they owned immediately prior to the completion of the conversion and public offering (excluding shares purchased in the stock offering and cash received in lieu of fractional shares).

When the conversion and public offering are completed, all of the capital stock of the Bank will be owned by the new Maryland corporation. The Plan provides for the establishment, upon the completion of the conversion, of special "liquidation accounts" for the benefit of certain depositors of the Bank in an amount equal to the greater of Kearny MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus or the value of the net assets of Kearny MHC as of the date of the latest statement of financial condition of Kearny MHC prior to the consummation of the conversion (excluding its ownership of the Company).

Following the completion of the conversion, under the rules of the Federal Reserve Bank ("FRB"), the Bank will not be permitted to pay dividends on its capital stock to the Company, its sole shareholder, if the Company's shareholders' equity would be reduced below the amount of the liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation accounts. Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. The Company has incurred approximately \$1.5 million in such costs through December 31, 2014.

The transactions contemplated by the Plan are subject to approval by the Company's stockholders (including approval by a majority of the shares held by persons other than the MHC) and the members of the MHC as well as the Board of Governors of the Federal Reserve System.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The purpose of the ASU is to reduce diversity in the application of guidance by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. This ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The purpose of the ASU is to address the concern that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. In particular, repurchase-to-maturity transactions are generally accounted for as sales with forward agreements under current accounting, whereas typical repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. Additionally, current accounting guidance requires an evaluation of whether an initial transfer of a financial asset and a contemporaneous repurchase agreement (a repurchase financing) should be accounted for separately or linked. If linked, the arrangement is accounted for on a combined basis as a forward agreement. Those outcomes often are referred to as off-balance-sheet accounting. The ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new related disclosures. This ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The purpose of the ASU is to address a practice issue related to the classification of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that meet certain conditions to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned (OREO). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

7. STOCK REPURCHASE PLANS

On December 2, 2013, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 762,640 shares, or 5%, of the Company's outstanding stock held by persons other than Kearny MHC. Through December 31, 2014, the Company has repurchased a total of 62,900 shares in accordance with this repurchase plan at a total cost of approximately \$700,000 and at an average cost per share of \$11.13.

8. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities available for sale at December 31, 2014 and June 30, 2014 and stratification by contractual maturity of debt securities available for sale at December 31, 2014 are presented below:

	December 31, 2014		Gross	Fair
	Gross			
	Amortized	Unrealized	Unrealized	
	Cost	Gains	Losses	Value
(In Thousands)				
Securities available for sale:				
Debt securities:				
U.S. agency securities	\$7,814	\$ 63	\$ 13	\$7,864
Obligations of state and political subdivisions	27,525	137	219	27,443
Asset-backed securities	87,550	1,259	202	88,607
Collateralized loan obligations	128,607	-	2,299	126,308
Corporate bonds	163,064	431	1,079	162,416
Trust preferred securities	8,891	20	1,091	7,820
Total debt securities	423,451	1,910	4,903	420,458
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	31,637	-	470	31,167
Federal National Mortgage Association	49,017	16	1,206	47,827
Non-agency securities	184	-	2	182
Total collateralized mortgage obligations	80,838	16	1,678	79,176
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	2,748	261	1	3,008
Federal Home Loan Mortgage Corporation	171,495	2,908	772	173,631
Federal National Mortgage Association	116,052	3,604	373	119,283
Total residential pass-through securities	290,295	6,773	1,146	295,922
Commercial pass-through securities:				
Federal National Mortgage Association	16,375	75	-	16,450
Total commercial pass-through securities	16,375	75	-	16,450
Total mortgage-backed securities	387,508	6,864	2,824	391,548
Total securities available for sale	\$810,959	\$ 8,774	\$ 7,727	\$812,006

December 31, 2014

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Amortized Fair

	Cost	Value
	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	\$-	\$-
Due after one year through five years	20,048	20,175
Due after five years through ten years	152,413	151,661
Due after ten years	250,990	248,622
Total	\$423,451	\$420,458

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	June 30, 2014			
	Gross		Gross	
	Amortized Unrealized		Unrealized	Fair
	Cost	Gains	Losses	Value
(In Thousands)				
Securities available for sale:				
Debt securities:				
U.S. agency securities	\$4,159	\$ 48	\$ 2	\$4,205
Obligations of state and political subdivisions	27,537	9	773	26,773
Asset-backed securities	87,480	663	827	87,316
Collateralized loan obligations	120,089	-	517	119,572
Corporate bonds	163,076	617	1,459	162,234
Trust preferred securities	8,887	32	1,121	7,798
Total debt securities	411,228	1,369	4,699	407,898
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	33,505	-	485	33,020
Federal National Mortgage Association	51,277	12	1,249	50,040
Non-agency securities	210	-	-	210
Total collateralized mortgage obligations	84,992	12	1,734	83,270
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	3,055	221	-	3,276
Federal Home Loan Mortgage Corporation	196,882	3,937	1,929	198,890
Federal National Mortgage Association	147,873	4,750	836	151,787
Total residential pass-through securities	347,810	8,908	2,765	353,953
Total mortgage-backed securities	432,802	8,920	4,499	437,223
Total securities available for sale	\$844,030	\$ 10,289	\$ 9,198	\$845,121

During the six months ended December 31, 2014, proceeds from sales of securities available for sale totaled \$57.2 million and resulted in gross gains of \$601,000 and gross losses of \$594,000. Proceeds from sales of securities available for sale during the six months ended December 31, 2013, totaled \$107.7 million and resulted in gross gains of \$2,060,000 and gross losses of \$1,834,000.

At December 31, 2014 and June 30, 2014, securities available for sale with carrying values of approximately \$66.9 million and \$76.1 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. As of those same dates, securities available for sale with total carrying values of approximately \$1.6 million and \$1.8 million, respectively, were pledged to secure public funds on deposit.

At December 31, 2014, the Company's available for sale mortgage-backed securities were secured by residential and commercial mortgage loans with original contractual maturities of ten to thirty years. At June 30, 2014, the Company's available for sale mortgage-backed securities were secured by residential mortgage loans only with original contractual maturities of ten to thirty years. The effective lives of mortgage-backed securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

9. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities held to maturity at December 31, 2014 and June 30, 2014 and stratification by contractual maturity of debt securities held to maturity at December 31, 2014 are presented below:

	December 31, 2014			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
(In Thousands)				
Securities held to maturity:				
Debt securities:				
U.S. agency securities	\$ 144,236	\$ 5	\$ 1,394	\$ 142,847
Obligations of state and political subdivisions	75,670	271	724	75,217
Total debt securities	219,906	276	2,118	218,064
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	19	2	-	21
Federal National Mortgage Association	241	26	-	267
Non-agency securities	46	-	2	44
Total collateralized mortgage obligations	306	28	2	332
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	9	1	-	10
Federal Home Loan Mortgage Corporation	258	15	-	273
Federal National Mortgage Association	129,223	1,943	-	131,166
Total residential pass-through securities	129,490	1,959	-	131,449
Commercial pass-through securities:				
Government National Mortgage Association	10,305	-	188	10,117
Federal National Mortgage Association	182,428	1,812	429	183,811
Total commercial pass-through securities	192,733	1,812	617	193,928
Total mortgage-backed securities	322,529	3,799	619	325,709
Total securities held to maturity	\$ 542,435	\$ 4,075	\$ 2,737	\$ 543,773

December 31, 2014
Amortized Fair

Cost Value

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	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	\$6,302	\$6,312
Due after one year through five years	149,359	147,917
Due after five years through ten years	39,395	39,164
Due after ten years	24,850	24,671
Total	\$219,906	\$218,064

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	June 30, 2014		Gross Unrealized Losses	Fair Value
	Gross			
	Amortized	Unrealized		
	Cost	Gains		
(In Thousands)				
Securities held to maturity:				
Debt securities:				
U.S. agency securities	\$ 144,349	\$ 6	\$ 1,408	\$142,947
Obligations of state and political subdivisions	72,065	15	1,555	70,525
Total debt securities	216,414	21	2,963	213,472
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	20	2	-	22
Federal National Mortgage Association	264	30	-	294
Non-agency securities	54	-	1	53
Total collateralized mortgage obligations	338	32	1	369
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	9	-	-	9
Federal Home Loan Mortgage Corporation	283	4	-	287
Federal National Mortgage Association	114,276	140	83	114,333
Total residential pass-through securities	114,568	144	83	114,629
Commercial pass-through securities:				
Federal National Mortgage Association	180,752	73	2,042	178,783
Total commercial pass-through securities	180,752	73	2,042	178,783
Total mortgage-backed securities	295,658	249	2,126	293,781
Total securities held to maturity	\$512,072	\$ 270	\$ 5,089	\$507,253

There were no sales of securities held to maturity during the six months ended December 31, 2014 and December 31, 2013.

At December 31, 2014 and June 30, 2014, securities held to maturity with carrying values of approximately \$127.8 million and \$128.1 million, respectively, were utilized as collateral for borrowings from the FHLB of New York. As of those same dates, securities held to maturity with total carrying values of approximately \$8.0 million and \$4.5 million, respectively, were pledged to secure public funds on deposit.

At December 31, 2014 and June 30, 2014, the Company's held to maturity mortgage-backed securities were secured by both residential and commercial mortgage loans with original contractual maturities of ten to thirty years. The effective lives of mortgage-backed securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the

borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

10. IMPAIRMENT OF SECURITIES

The following two tables summarize the fair values and gross unrealized losses within the available for sale and held to maturity portfolios at December 31, 2014 and June 30, 2014. The gross unrealized losses, presented by security type, represent temporary impairments of value within each portfolio as of the dates presented. Temporary impairments within the available for sale portfolio have been recognized through other comprehensive income as reductions in stockholders' equity on a tax-effected basis.

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The tables are followed by a discussion that summarizes the Company's rationale for recognizing certain impairments as "temporary" versus those identified as "other-than-temporary". Such rationale is presented by investment type and generally applies consistently to both the "available for sale" and "held to maturity" portfolios, except where specifically noted.

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
(In Thousands)						
Securities Available for Sale:						
U.S. agency securities	\$1,570	\$ 8	\$856	\$ 5	\$2,426	\$ 13
Obligations of state and political						
subdivisions	656	2	11,952	217	12,608	219
Asset-backed securities	-	-	30,121	202	30,121	202
Collateralized loan obligations	126,309	2,299	-	-	126,309	2,299
Corporate bonds	43,814	203	54,178	876	97,992	1,079
Trust preferred securities	-	-	6,800	1,091	6,800	1,091
Collateralized mortgage obligations	26,739	222	47,010	1,456	73,749	1,678
Residential pass-through securities	43,435	306	75,149	840	118,584	1,146
Total	\$242,523	\$ 3,040	\$226,066	\$ 4,687	\$468,589	\$ 7,727

	June 30, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
(In Thousands)						
Securities Available for Sale:						
U.S. agency securities	\$826	\$ 1	\$84	\$ 1	\$910	\$ 2
Obligations of state and political						
subdivisions	946	3	23,140	770	24,086	773
Asset-backed securities	28,404	630	25,169	197	53,573	827
Collateralized loan obligations	84,705	270	24,829	247	109,534	517
Corporate bonds	19,790	210	53,811	1,249	73,601	1,459
Trust preferred securities	-	-	6,766	1,121	6,766	1,121
Collateralized mortgage obligations	21,806	219	50,028	1,515	71,834	1,734
Residential pass-through securities	-	-	123,666	2,765	123,666	2,765
Total	\$156,477	\$ 1,333	\$307,493	\$ 7,865	\$463,970	\$ 9,198

The number of available for sale securities with unrealized losses at December 31, 2014 totaled 95 and included five U.S. agency securities, 35 municipal obligations, four asset-backed securities, 20 collateralized loan obligations, nine corporate obligations, four trust preferred securities and 18 mortgage-backed securities comprising nine collateralized mortgage obligations and nine residential pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2014 totaled 111 and included four U.S. agency securities, 63 municipal obligations, five asset-backed securities, 16 collateralized loan obligations, six corporate obligations, four trust preferred securities and 13 mortgage-backed securities comprising six collateralized mortgage obligations and seven residential pass-through securities.

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	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
(In Thousands)						
Securities Held to Maturity:						
At December 31, 2014						
U.S. agency securities	\$-	\$ -	\$141,936	\$ 1,394	\$141,936	\$ 1,394
Obligations of state and political						
subdivisions	13,964	66	30,580	658	44,544	724
Collateralized mortgage obligations	41	1	5	1	46	2
Commercial pass-through securities	13,077	203	24,105	414	37,182	617
Total	\$27,082	\$ 270	\$196,626	\$ 2,467	\$223,708	\$ 2,737

	June 30, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
(In Thousands)						
Securities Held to Maturity:						
U.S. agency securities	\$-	\$ -	\$141,919	\$ 1,408	\$141,919	\$ 1,408
Obligations of state and political						
subdivisions	5,808	36	57,056	1,519	62,864	1,555
Collateralized mortgage obligations	30	1	-	-	30	1
Residential pass-through securities	59,993	83	-	-	59,993	83
Commercial pass-through securities	56,234	230	96,937	1,812	153,171	2,042
Total	\$122,065	\$ 350	\$295,912	\$ 4,739	\$417,977	\$ 5,089

The number of held to maturity securities with unrealized losses at December 31, 2014 totaled 109 and included seven U.S. agency securities, 91 municipal obligations and 11 mortgage-backed securities comprising four collateralized mortgage obligations and seven commercial pass-through securities. The number of held to maturity securities with unrealized losses at June 30, 2014 totaled 198 and included seven U.S. agency securities, 137 municipal obligations and 54 mortgage-backed securities comprising three collateralized mortgage obligations, 26 residential pass-through securities and 25 commercial pass-through securities.

In general, if the fair value of a debt security is less than its amortized cost basis at the time of evaluation, the security is "impaired" and the impairment is to be evaluated to determine if it is other than temporary. The Company evaluates the impaired securities in its portfolio for possible other than temporary impairment (OTTI) on at least a quarterly basis. The following represents the circumstances under which an impaired security is determined to be other than temporarily impaired:

When the Company intends to sell the impaired debt security;

When the Company more likely than not will be required to sell the impaired debt security before recovery of its amortized cost (for example, whether liquidity requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs); or

When an impaired debt security does not meet either of the two conditions above, but the Company does not expect to recover the entire amortized cost of the security. According to applicable accounting guidance for debt securities, this is generally when the present value of cash flows expected to be collected is less than the amortized cost of the security.

In the first two circumstances noted above, the amount of OTTI recognized in earnings is the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. In the third circumstance, however, the OTTI is to be separated into the amount representing the credit loss from the amount related to all other factors. The credit loss component is to be recognized in earnings while the non-credit loss component is to be recognized in other comprehensive income. In these cases, OTTI is generally predicated on an adverse change in cash flows (e.g. principal and/or interest payment deferrals or losses) versus those expected at the time of purchase. The absence of an adverse change in expected cash flows generally indicates that a security's impairment is related to other "non-credit loss" factors and is thereby generally not recognized as OTTI.

The Company considers a variety of factors when determining whether a credit loss exists for an impaired security including, but not limited to:

The length of time and the extent (a percentage) to which the fair value has been less than the amortized cost basis; Adverse conditions specifically related to the security, an industry, or a geographic area (e.g. changes in the financial condition of the issuer of the security, or in the case of an asset backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement);

The historical and implied volatility of the fair value of the security;

The payment structure of the debt security;

Actual or expected failure of the issuer of the security to make scheduled interest or principal payments;

Changes to the rating of the security by external rating agencies; and

Recoveries or additional declines in fair value subsequent to the balance sheet date.

At December 31, 2014 and June 30, 2014, the Company held no securities on which credit-related OTTI had been recognized in earnings. The following discussion summarizes the Company's rationale for recognizing the impairments reported in the tables above as "temporary" versus "other-than-temporary". Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

Mortgage-backed Securities.

The carrying value of the Company's mortgage-backed securities totaled \$714.1 million at December 31, 2014 and comprised 52.7% of total investments and 20.1% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government agencies and/or government-sponsored entities ("GSEs") such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis at which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby strengthening the creditworthiness of the mortgage-backed securities issued by those agencies.

With credit risk being reduced to negligible levels due primarily to the U.S. government's support of most of these agencies, the unrealized losses on the Company's investment in U.S. agency mortgage-backed securities are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company's mortgage-backed securities, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are largely characterized by fixed interest rates or adjustable rates that lag the movement in market interest rates, generally decline and vice-versa.

Additionally, movements in market interest rates significantly impact the average lives of mortgage-backed securities by influencing the rate of principal prepayment attributable to refinancing activity. Changes in the expected average lives of such securities significantly impact their fair values due to the extension or contraction of the cash flows that an investor expects to receive over the life of the security. Generally, lower market interest rates prompt greater refinancing activity thereby shortening the average lives of mortgage-backed securities and vice-versa. The historically low mortgage rates prevalent in the marketplace during recent years created significant refinancing incentive for qualified borrowers.

Prepayment rates are also influenced by fluctuating real estate values and the overall availability of credit in the marketplace which significantly impacts the ability of borrowers to qualify for refinancing. The residential real estate marketplace in recent years has been characterized by diminished property values and reduced availability of credit due to tightening underwriting standards. As a consequence, the ability of certain borrowers to qualify for the refinancing of existing loans has been reduced while residential real estate purchase activity has been stifled. These factors have partially offset the effects of historically low interest rates on mortgage-backed security prepayment rates.

The market price of mortgage-backed securities, being the key measure of the fair value to an investor in such securities, is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company's U.S. agency mortgage-backed securities, as described above, generally result from movements in market interest rates and changing real estate and financial market conditions which affect the supply and demand for such securities. Such market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered "noncredit-related" and "temporary" in nature.

Finally, the Company has the stated ability and intent to "hold to maturity" those securities so designated at December 31, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Moreover, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its U.S. agency and GSE mortgage-backed securities with unrealized losses at December 31, 2014 to be "other-than-temporarily" impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies and GSEs, the Company held a nominal balance of non-agency mortgage-backed securities at December 31, 2014. Unlike agency and GSE mortgage-backed securities, non-agency collateralized mortgage obligations are not explicitly guaranteed by a U.S. government sponsored entity. Rather, such securities generally utilize the structure of the larger investment vehicle to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying mortgage loans. The creditworthiness of certain tranches may also be further enhanced by additional credit insurance protection embedded within the terms of the total investment vehicle.

The fair values of the non-agency mortgage-backed securities are subject to many of the factors applicable to the agency securities that may result in "temporary" impairments in value. However, due to the lack of agency guaranty, the Company also monitors the general level of credit risk for each of its non-agency mortgage-backed securities based upon a variety of factors including, but not limited to, the ratings assigned to its specific tranches by one or more credit rating agencies, where available. As noted above, the level of such ratings and changes thereto, is one of several factors considered by the Company in identifying those securities that may be other-than-temporarily impaired.

The applicable securities generally maintained their credit-ratings at levels supporting the investment grade assessment by the Company. The Company has the stated ability and intent to "hold to maturity" those securities at December 31, 2014 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its non-agency mortgage-backed securities with unrealized losses at December 31, 2014 to be "other-than-temporarily" impaired as of that date.

U.S. Agency Debt Securities.

The carrying value of the Company's U.S. agency debt securities totaled \$152.1 million at December 31, 2014 and comprised 11.2% of total investments and 4.3% of total assets as of that date. Such securities included U.S. agency debentures and securitized pools of loans issued and fully guaranteed by the Small Business Administration ("SBA"), a U.S. government agency.

With credit risk being reduced to negligible levels due to the issuer's guarantee, the unrealized losses on the Company's investment in U.S. agency debentures are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including

the Company's U.S. agency debentures, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are largely characterized by fixed interest rates, generally decline and vice-versa.

The market price of U.S. agency debentures is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company's U.S. agency debentures, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Those market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered "noncredit-related" and "temporary" in nature.

Finally, the Company has the stated ability and intent to “hold to maturity” those securities so designated at December 31, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of U.S. agency securities with unrealized losses at December 31, 2014 to be “other-than-temporarily” impaired as of that date.

Obligations of State and Political Subdivisions.

The carrying value of the Company’s securities representing obligations of state and political subdivisions totaled \$103.1 million at December 31, 2014 and comprised 7.6% of total investments and 2.9% of total assets as of that date. Such securities include approximately \$101.5 million of fixed-rate, bank-qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. The portfolio also includes \$1.6 million of non-rated bond anticipation notes (“BANs”) comprising five short-term obligations issued by a total of three New Jersey municipalities with whom the Company maintains or seeks to maintain deposit relationships. At December 31, 2014, the fair value of each of the Company’s BANs equaled or exceeded their respective carrying values resulting in no reported impairment on those securities as of that date.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where available, in its evaluation of the impairment attributable to each of its municipal obligations. The Company uses such ratings, in conjunction with the other criteria noted earlier, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with municipal obligations whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s periodic internal investment grade assessment of the security.

At December 31, 2014, each of the Company’s impaired municipal obligations were consistently rated by Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Financial Services (“S&P”) well above the thresholds that generally support the Company’s investment grade assessment with such ratings equaling “A” or higher by S&P and/or “A2” or higher by Moody’s, where rated by those agencies. In the absence of such ratings, the Company relies upon its own internal analysis of the issuer’s financial condition to validate its investment grade assessment.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company’s investment in municipal obligations are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company’s municipal obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are largely characterized by fixed interest rates, generally decline and vice-versa.

The market price of municipal obligations is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect investors’ assessment of an issuer’s creditworthiness and resulting expectations for timely and full repayment in accordance with the terms of the applicable security agreement. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company's municipal obligations, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Those market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered "noncredit-related" and "temporary" in nature.

Finally, the Company has the stated ability and intent to "hold to maturity" those securities so designated at December 31, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of

that date. In light of the factors noted, the Company does not consider its balance of obligations of state and political subdivisions with unrealized losses at December 31, 2014 to be “other-than-temporarily” impaired as of that date.

Asset-backed Securities.

The carrying value of the Company’s asset-backed securities totaled \$88.6 million at December 31, 2014 and comprised 6.5% of total investments and 2.5% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities representing securitized federal education loans with 97% U.S. government guarantees. The securities represent tranches of a larger investment vehicle designed to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans. The Company’s securities represent the highest credit-quality tranches within the overall structures with each being rated “AA+” by S&P at December 31, 2014.

With credit risk being reduced to nominal levels due to the guarantees and structural support noted above, the unrealized losses on the Company’s investment in asset-backed securities are due largely to the combined effects of several market-related factors, including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company’s asset-backed securities, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities generally decline and vice-versa. However, the floating-rate nature of the Company’s asset-backed securities greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of asset-backed securities is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company’s asset-backed securities, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Those market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered “noncredit-related” and “temporary” in nature.

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of December 31, 2014. In light of the factors noted, the Company does not consider its balance of asset-backed securities with unrealized losses at December 31, 2014 to be “other-than-temporarily” impaired as of that date.

Collateralized Loan Obligations.

The outstanding balance of the Company’s collateralized loan obligations totaled \$126.3 million at December 31, 2014 and comprised 9.3% of total investments and 3.6% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities comprised of securitized commercial loans to large U.S. corporations. The Company’s securities represent tranches of a larger investment vehicle designed to reallocate cash flows and credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted

by borrowers defaulting on the underlying loans.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where available, in its evaluation of the impairment attributable to each of its collateralized loan obligations. The Company uses such ratings, in conjunction with the other criteria noted earlier, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with collateralized loan obligations whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s periodic internal investment grade assessment of the security.

At December 31, 2014, each of the Company's impaired collateralized loan obligations were consistently rated by Moody's and S&P well above the thresholds that generally support the Company's investment grade assessment, with such ratings equaling "AA" or higher by S&P and "Aa2" or higher by Moody's, where rated by those agencies.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company's investment in collateralized loan obligations are due largely to the combined effects of several market-related factors, including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company's collateralized loan obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities generally decline and vice-versa. However, the floating-rate nature of the Company's collateralized loan obligations greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of collateralized loan obligations is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect the performance of the underlying collateral in conjunction with the resiliency of the security's structural support as they affect investors' expectations for timely and full repayment. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company's collateralized loan obligations, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Those market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered "noncredit-related" and "temporary" in nature.

During fiscal 2014, the Company sold certain collateralized loan obligations that it had identified as potentially ineligible investments under the terms of the "Volcker Rule" and related regulations enacted by regulatory agencies in conjunction with the ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Such ineligibility was primarily based upon the actual composition of the securitized financial assets within the applicable securities.

At December 31, 2014, the Company's entire portfolio of collateralized loan obligations remains compliant with the Volcker Rule in that regard. As such, the Company concluded that the possibility of being required to sell its collateralized loan obligations prior to their anticipated recovery is currently unlikely which is further reinforced by the overall strength of the Company's liquidity, asset quality and capital position as of that date. Moreover, the Company does not otherwise intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost at December 31, 2014.

During the quarter ended December 31, 2014, the Company reviewed the underlying security agreements for each of its collateralized loan obligations to determine if the terms of such agreements could potentially allow for the inclusion of ineligible assets within the security's structure in the future. To the extent the agreements contained such provisions and could or would not be modified by the issuer to ensure ongoing compliance with the Volcker Rule, the Bank sold such securities during the quarter ended December 31, 2014.

In light of the factors noted, the Company does not consider its balance of collateralized loan obligations with unrealized losses at December 31, 2014 to be "other-than-temporarily" impaired as of that date.

Corporate Bonds.

The carrying value of the Company's corporate bonds totaled \$162.4 million at December 31, 2014 and comprised 12.0% of total investments and 4.6% of total assets as of that date. This category of securities is comprised entirely of floating-rate corporate debt obligations of large financial institutions.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where available, in its evaluation of the impairment attributable to each of its corporate bonds. The Company uses such ratings, in conjunction with the other criteria noted earlier, to identify those securities whose impairments are potentially "credit-related" versus "noncredit-related".

Unrealized losses associated with corporate bonds whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s periodic internal investment grade assessment of the security.

At December 31, 2014, each of the Company’s impaired corporate bonds were consistently rated by Moody’s and S&P above the thresholds that generally support the Company’s investment grade assessment with such ratings equaling “A-” or higher by S&P and/or “Baa1” or higher by Moody’s, where rated by those agencies.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company’s investment in corporate bonds are due largely to the combined effects of several market-related factors including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company’s corporate bonds, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities generally decline and vice-versa. However, the floating-rate nature of the Company’s corporate bonds greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of corporate bonds is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect investors’ assessment of an issuer’s creditworthiness and resulting expectations for timely and full repayment in accordance with the terms of the applicable security agreement. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

In sum, the factors influencing the fair value of the Company’s corporate bonds, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Those market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value resulting directly from these changing market conditions are considered “noncredit-related” and “temporary” in nature.

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of December 31, 2014. In light of the factors noted, the Company does not consider its balance of corporate bonds with unrealized losses at December 31, 2014 to be “other-than-temporarily” impaired as of that date.

Trust Preferred Securities.

The carrying value of the Company’s trust preferred securities totaled \$7.8 million at December 31, 2014 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five “single-issuer” (i.e. non-pooled) trust preferred securities, four of which are impaired as of December 31, 2014, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company’s five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where such ratings are available, in its evaluation of the impairment attributable to each of its trust preferred securities. The Company uses such ratings, in conjunction with other criteria, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with trust preferred securities whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s internal investment grade assessment of the security.

At December 31, 2014, the Company owned two securities at an amortized cost of \$3.0 million that were consistently rated by Moody’s and S&P above the thresholds that generally support the Company’s investment grade assessment. The securities were originally issued through Chase Capital II and currently represent de facto obligations of JPMorgan Chase & Co.

The Company has attributed the unrealized losses on these securities to the combined effects of several market-related factors, including movements in market interest rates and general level of liquidity of such securities in the marketplace based on overall supply and demand.

With regard to interest rates, the Company's impaired trust preferred securities are variable rate securities whose interest rates generally float with three-month LIBOR plus a margin. Based upon the historically low level of short-term market interest rates, the current yield on these securities is comparatively low. Consequently, the fair value of the securities, as determined based upon their market price, reflects the adverse effects of the historically low market interest rates at December 31, 2014.

More significantly, the market prices of the impaired trust preferred securities also currently reflect the effect of reduced demand for such securities in the current marketplace.

In addition to the securities noted above, the Company owned two additional trust preferred securities at an amortized cost of \$4.9 million whose external credit ratings by both S&P and Moody's fell below the thresholds that the Company normally associates with investment grade securities. The securities were originally issued through BankBoston Capital Trust IV and MBNA Capital Trust B and currently represent de-facto obligations of Bank of America Corporation.

The Company's evaluation of the unrealized loss associated with these securities considered a variety of factors to determine if any portion of the impairment was credit-related at December 31, 2014. Factors generally considered in such evaluations included the financial strength and viability of the issuer and its parent company, the security's historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security's current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security's expected future cash flows in relation to its amortized cost basis.

In its evaluation, the Company noted the overall financial strength and continuing expected viability of the issuing entity's parent, particularly given their systemically critical role in the marketplace. The Company noted the security's absence of historical defaults or payment deferrals throughout prior business cycles including the recent fiscal crisis that triggered the current economic weaknesses prevalent in the marketplace. Given these factors, the Company had no basis upon which to estimate an adverse change in the expected cash flows over the securities' remaining terms to maturity.

In sum, the factors influencing the fair value of the Company's trust preferred securities and the resulting impairment attributable to each generally resulted from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market conditions may generally fluctuate over time resulting in the securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both "noncredit-related" and "temporary" in nature.

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of December 31, 2014. In light of the factors noted, the Company does not consider its investments in trust preferred securities with unrealized losses at December 31, 2014 to be "other-than-temporarily" impaired as of that date.

11. LOAN QUALITY AND ALLOWANCE FOR LOAN LOSSES

Past Due Loans. A loan's "past due" status is generally determined based upon its "P&I delinquency" status in conjunction with its "past maturity" status, where applicable. A loan's "P&I delinquency" status is based upon the number of calendar days between the date of the earliest P&I payment due and the "as of" measurement date. A loan's "past maturity" status, where applicable, is based upon the number of calendar days between a loan's contractual maturity date and the "as of" measurement date. Based upon the larger of these criteria, loans are categorized into the following "past due" tiers for financial statement reporting and disclosure purposes: Current (including 1-29 days past due), 30-59 days, 60-89 days and 90 or more days.

Nonaccrual Loans. Loans are generally placed on nonaccrual status when contractual payments become 90 days or more past due, and are otherwise placed on nonaccrual status when the Company does not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement. Loans that become 90 days past maturity, but remain non-delinquent with regard to ongoing P&I payments, may remain on accrual status if: (1) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, past maturity status notwithstanding, and (2) the borrower is working actively and cooperatively with the Company to remedy the past maturity status through an expected refinance, payoff or modification of the loan

agreement that is not expected to result in a troubled debt restructuring (“TDR”) classification. All TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of past due status. The sum of nonaccrual loans plus accruing loans that are 90 days or more past due are generally defined collectively as “nonperforming loans”.

Payments received in cash on nonaccrual loans, including both the principal and interest portions of those payments, are generally applied to reduce the carrying value of the loan for financial statement purposes. When a loan is returned to accrual status, any accumulated interest payments previously applied to the carrying value of the loan during its nonaccrual period are recognized as interest income as an adjustment to the loan’s yield over its remaining term.

Loans that are not considered to be TDRs are generally returned to accrual status when payments due are brought current and the Company expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. Non-TDR loans may also be returned to accrual status when a loan’s payment status falls below 90 days past due and the Company: (1) expects receipt of the remaining past due amounts within a reasonable timeframe, and (2) expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement.

Acquired Loans. Loans that we acquire through acquisitions are recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable yield. The nonaccretable yield represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for credit losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable yield which we then reclassify as accretable yield that is recognized into interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect is performed in a similar manner as that used to determine our allowance for credit losses. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable yield portion of the fair value adjustment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield.

At December 31, 2014, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately \$11,691,000 and \$9,971,000, respectively. By comparison, at June 30, 2014, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately \$11,778,000 and \$10,138,000, respectively.

The carrying amount of acquired credit-impaired loans for which interest is not being recognized due to the uncertainty of the cash flows relating to such loans totaled \$1,969,000 and \$2,374,000 at December 31, 2014 and June 30, 2014, respectively.

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The balance of the allowance for loan losses at December 31, 2014 and June 30, 2014 included approximately \$91,000 and \$98,000 of valuation allowances, respectively, for a specifically identified impairment attributable to acquired credit-impaired loans. The valuation allowances were attributable to additional impairment recognized on the applicable loans subsequent to their acquisition, net of any charge offs recognized during that time.

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The following table presents the changes in the accretable yield relating to the acquired credit-impaired loans for the three and six months ended December 31, 2014 and December 31, 2013.

	Three Months Ended	Six Months Ended
	December 31, 2014 (In Thousands)	December 31, 2014 (In Thousands)
Beginning balance	\$ 1,827	\$ 1,891
Accretion to interest income	(143)	(207)
Disposals	-	-
Reclassifications from nonaccretable difference	-	-
Ending balance	\$ 1,684	\$ 1,684

	Three Months Ended	Six Months Ended
	December 31, 2013 (In Thousands)	December 31, 2013 (In Thousands)
Beginning balance	\$ 2,180	\$ 741
Accretion to interest income	(57)	(112)
Disposals	-	-
Reclassifications from nonaccretable difference	-	1,494
Ending balance	\$ 2,123	\$ 2,123

Classification of Assets. In compliance with regulatory guidelines, the Company's loan review system includes an evaluation process through which certain loans exhibiting adverse credit quality characteristics are classified "Special Mention", "Substandard", "Doubtful" or "Loss".

An asset is classified as "Substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified as "Substandard", with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets, or portions thereof, classified as "Loss" are considered uncollectible or of so little value that their continuance as assets is not warranted.

Management evaluates loans classified as substandard or doubtful for impairment in accordance with applicable accounting requirements. As discussed in greater detail below, a valuation allowance is established through the

provision for loan losses for any impairment identified through such evaluations.

To the extent that impairment identified on a loan is classified as “Loss”, that portion of the loan is charged off against the allowance for loan losses. The classification of loan impairment as “Loss” is based upon a confirmed expectation for loss. For loans primarily secured by real estate, the expectation for loss is generally confirmed when: (a) impairment is identified on a loan individually evaluated in the manner described below, and (b) the loan is presumed to be collateral-dependent such that the source of loan repayment is expected to arise solely from sale of the collateral securing the applicable loan. Impairment identified on non-collateral-dependent loans may or may not be eligible for a “Loss” classification depending upon the other salient facts and circumstances that affect the manner and likelihood of loan repayment. However, loan impairment that is classified as “Loss” is charged off against the allowance for loan losses concurrent with that classification.

The timeframe between when loan impairment is first identified by the Company and when such impairment may ultimately be charged off varies by loan type. For example, unsecured consumer and commercial loans are generally classified as “Loss” at 120 days past due, resulting in their outstanding balances being charged off at that time. For the Company’s secured loans, the condition of collateral dependency generally serves as the basis upon which a “Loss” classification is ascribed to a loan’s impairment thereby confirming an expected loss and triggering charge off of that impairment. While the facts and circumstances that effect the manner and likelihood of repayment vary from loan to loan, the Company generally considers the referral of a loan to foreclosure, coupled with the absence of other viable sources of loan repayment, to be demonstrable evidence of collateral dependency. Depending upon the nature of the collections process applicable to a particular loan, an early determination of collateral dependency could result in a nearly concurrent charge off of a newly identified impairment. By contrast, a presumption of collateral dependency may only be determined after the completion of lengthy loan collection and/or workout efforts, including bankruptcy proceedings, which may extend several months or more after a loan’s impairment is first identified.

In a limited number of cases, the entire net carrying value of a loan may be determined to be impaired based upon a collateral-dependent impairment analysis. However, the borrower's adherence to contractual repayment terms precludes the recognition of a "Loss" classification and charge off. In these limited cases, a valuation allowance equal to 100% of the impaired loan's carrying value may be maintained against the net carrying value of the asset.

Assets which do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but have some credit deficiencies or other potential weaknesses are designated as "Special Mention" by management. Adversely classified assets, together with those rated as "Special Mention", are generally referred to as "Classified Assets". Non-classified assets are internally rated within one of four "Pass" categories or as "Watch" with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Management performs a classification of assets review, including the regulatory classification of assets, generally on a monthly basis. The results of the classification of assets review are validated by the Company's third party loan review firm during their quarterly independent review. In the event of a difference in rating or classification between those assigned by the internal and external resources, the Company will generally utilize the more critical or conservative rating or classification. Final loan ratings and regulatory classifications are presented monthly to the Board of Directors and are reviewed by regulators during the examination process.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects the Company's estimation of the losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The balance of the allowance is generally maintained through provisions for loan losses that are charged to income in the period that estimated losses on loans are identified by the Company's loan review system. The Company charges confirmed losses on loans against the allowance as such losses are identified. Recoveries on loans previously charged-off are added back to the allowance.

The Company's allowance for loan loss calculation methodology utilizes a "two-tier" loss measurement process that is generally performed monthly. Based upon the results of the classification of assets and credit file review processes described earlier, the Company first identifies the loans that must be reviewed individually for impairment. Factors considered in identifying individual loans to be reviewed include, but may not be limited to, loan type, classification status, contractual payment status, performance/accrual status and impaired status.

The loans considered by the Company to be eligible for individual impairment review include its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, construction loans, commercial business loans as well as its one-to-four family mortgage loans, home equity loans and home equity lines of credit.

A reviewed loan is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, management performs an analysis to determine the amount of impairment associated with that loan.

In measuring the impairment associated with collateral-dependent loans, the fair value of the collateral securing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. In the case of real estate collateral, such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser. The value of non-real estate collateral is similarly determined based upon an independent assessment of fair market value by a qualified resource.

The Company generally obtains independent appraisals on properties securing mortgage loans when such loans are initially placed on nonperforming or impaired status with such values updated approximately every six to twelve months thereafter throughout the collections, bankruptcy and/or foreclosure processes. Appraised values are typically updated at the point of foreclosure, where applicable, and approximately every six to twelve months thereafter while the repossessed property is held as real estate owned.

As supported by accounting and regulatory guidance, the Company reduces the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan.

The Company establishes valuation allowances in the fiscal period during which the loan impairments are identified. The results of management's individual loan impairment evaluations are validated by the Company's third party loan review firm during their quarterly independent review. Such valuation allowances are adjusted in subsequent fiscal periods, where appropriate, to reflect any changes in carrying value or fair value identified during subsequent impairment evaluations which are generally updated monthly by management.

The second tier of the loss measurement process involves estimating the probable and estimable losses which addresses loans not otherwise reviewed individually for impairment as well as those individually reviewed loans that are determined to be non-impaired. Such loans include groups of smaller-balance homogeneous loans that may generally be excluded from individual impairment analysis, and therefore collectively evaluated for impairment, as well as the non-impaired loans within categories that are otherwise eligible for individual impairment review.

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary segments: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans.

The risks presented by residential mortgage loans are primarily related to adverse changes in the borrower's financial condition that threaten repayment of the loan in accordance with its contractual terms. Such risk to repayment can arise from job loss, divorce, illness and the personal bankruptcy of the borrower. For collateral dependent residential mortgage loans, additional risk of loss is presented by potential declines in the fair value of the collateral securing the loan.

Home equity loans and home equity lines of credit generally share the same risks as those applicable to residential mortgage loans. However, to the extent that such loans represent junior liens, they are comparatively more susceptible to such risks given their subordinate position behind senior liens.

In addition to sharing similar risks as those presented by residential mortgage loans, risks relating to commercial mortgage also arise from comparatively larger loan balances to single borrowers or groups of related borrowers. Moreover, the repayment of such loans is typically dependent on the successful operation of an underlying real estate project and may be further threatened by adverse changes to demand and supply of commercial real estate as well as changes generally impacting overall business or economic conditions.

The risks presented by construction loans are generally considered to be greater than those attributable to residential and commercial mortgage loans. Risks from construction lending arise, in part, from the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost, including interest, of the project. The nature of these loans is such that they are comparatively more difficult to evaluate and monitor than permanent mortgage loans.

Commercial business loans are also considered to present a comparatively greater risk of loss due to the concentration of principal in a limited number of loans and/or borrowers and the effects of general economic conditions on the business. Commercial business loans may be secured by varying forms of collateral including, but not limited to, business equipment, receivables, inventory and other business assets which may not provide an adequate source of repayment of the outstanding loan balance in the event of borrower default. Moreover, the repayment of commercial business loans is primarily dependent on the successful operation of the underlying business which may be threatened by adverse changes to the demand for the business' products and/or services as well as the overall efficiency and effectiveness of the business' operations and infrastructure.

Finally, our unsecured consumer loans generally have shorter terms and higher interest rates than other forms of lending but generally involve more credit risk due to the lack of collateral to secure the loan in the event of borrower default. Consumer loan repayment is dependent on the borrower's continuing financial stability, and therefore is more likely to be adversely affected by job loss, divorce, illness and personal bankruptcy. By contrast, our consumer loans

also include account loans that are fully secured by the borrower's deposit accounts and generally present nominal risk to the Bank.

Each primary segment is further stratified to distinguish between loans originated and purchased through third parties from loans acquired through business combinations. Commercial business loans include secured and unsecured loans as well as loans originated through SBA programs. Additional criteria may be used to further group loans with common risk characteristics. For example, such criteria may distinguish between loans secured by different collateral types or separately identify loans supported by government guarantees such as those issued by the SBA.

In regard to historical loss factors, the Company's allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company utilizes a two-year moving average of annual net charge-off rates (charge-offs net of recoveries) by loan segment, where available, to calculate its actual, historical loss

experience. The outstanding principal balance of the non-impaired portion of each loan segment is multiplied by the applicable historical loss factor to estimate the level of probable losses based upon the Company's historical loss experience.

As noted, the second tier of the Company's allowance for loan loss calculation also utilizes environmental loss factors to estimate the probable losses within the loan portfolio. Environmental loss factors are based upon specific qualitative criteria representing key sources of risk within the loan portfolio. Such risk criteria includes the level of and trends in nonperforming loans; the effects of changes in credit policy; the experience, ability and depth of the lending function's management and staff; national and local economic trends and conditions; credit risk concentrations and changes in local and regional real estate values. During fiscal 2014, the environmental factors utilized by the Company in its allowance for loan loss calculation were expanded to include changes in the nature, volume and terms of loans, changes in the quality of loan review systems and resources and the effects of regulatory, legal and other external factors.

For each category of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk), with higher values potentially ascribed to exceptional levels of risk that exceed the standard range, as appropriate. The sum of the risk values, expressed as a whole number, is multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each loan category.

The Company incorporates its credit-rating classification system into the calculation of environmental loss factors by loan type by including risk-rating classification "weights" in its calculation of those factors. The Company's risk-rating classification system ascribes a numerical rating of "1" through "9" to each loan within the portfolio. The ratings "5" through "9" represent the numerical equivalents of the traditional loan classifications "Watch", "Special Mention", "Substandard", "Doubtful" and "Loss", respectively, while lower ratings, "1" through "4", represent risk-ratings within the least risky "Pass" category. The environmental loss factor applicable to each non-impaired loan within a category, as described above, is "weighted" by a multiplier based upon the loan's risk-rating classification. Within any single loan category, a "higher" environmental loss factor is ascribed to those loans with comparatively higher risk-rating classifications resulting in a proportionately greater ALLL requirement attributable to such loans compared to the comparatively lower risk-rated loans within that category.

In evaluating the impact of the level and trends in nonperforming loans on environmental loss factors, the Company first broadly considers the occurrence and overall magnitude of prior losses recognized on such loans over an extended period of time. For this purpose, losses are considered to include both charge offs as well as loan impairments for which valuation allowances have been recognized through provisions to the allowance for loan losses, but have not yet been charged off. To the extent that prior losses have generally been recognized on nonperforming loans within a category, a basis is established to recognize existing losses on loans collectively evaluated for impairment based upon the current levels of nonperforming loans within that category. Conversely, the absence of material prior losses attributable to delinquent or nonperforming loans within a category may significantly diminish, or even preclude, the consideration of the level of nonperforming loans in the calculation of the environmental loss factors attributable to that category of loans.

Once the basis for considering the level of nonperforming loans on environmental loss factors is established, the Company then considers the current dollar amount of nonperforming loans by loan type in relation to the total outstanding balance of loans within the category. A greater portion of nonperforming loans within a category in relation to the total suggests a comparatively greater level of risk and expected loss within that loan category and vice-versa.

In addition to considering the current level of nonperforming loans in relation to the total outstanding balance for each category, the Company also considers the degree to which those levels have changed from period to period. A significant and sustained increase in nonperforming loans over a 12-24 month period suggests a growing level of expected loss within that loan category and vice-versa.

As noted above, the Company considers these factors in a qualitative, rather than quantitative fashion when ascribing the risk value, as described above, to the level and trends of nonperforming loans that is applicable to a particular loan category. As with all environmental loss factors, the risk value assigned ultimately reflects the Company's best judgment as to the level of expected losses on loans collectively evaluated for impairment.

The sum of the probable and estimable loan losses calculated through the first and second tiers of the loss measurement processes as described above, represents the total targeted balance for the Company's allowance for loan losses at the end of a fiscal period. As noted earlier, the Company establishes all additional valuation allowances in the fiscal period during which additional individually identified loan impairments and additional estimated losses on loans collectively evaluated for impairment are identified. The Company adjusts its balance of valuation allowances through the provision for loan losses as required to ensure that the balance of the allowance for loan losses reflects all probable and estimable loans losses at the close of the fiscal period. Notwithstanding calculation methodology and the noted distinction between valuation allowances established on loans collectively versus individually evaluated for impairment, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

Although the Company's allowance for loans losses is established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further additions to the level of loan loss allowances may be necessary.

The following tables present the balance of the allowance for loan losses at December 31, 2014 and June 30, 2014 based upon the calculation methodology described above. The tables identify the valuation allowances attributable to specifically identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, as well as valuation allowances for impairments on loans evaluated collectively. The tables include the underlying balance of loans receivable applicable to each category as of those dates as well as the activity in the allowance for loan losses for the three and six months ended December 31, 2014 and 2013. Unless otherwise noted, the balance of loans reported in the tables below excludes yield adjustments and the allowance for loan loss.

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Allowance for Loan Losses and Loans Receivable
at December 31, 2014

	Home Equity							Total
	Residential Mortgage (In Thousands)	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Lines of Credit	Other Consumer	
Balance of allowance for loan losses:								
Originated and purchased loans:								
Loans individually evaluated								
for impairment	\$ 151	\$ 388	\$ -	\$ -	\$ 19	\$ -	\$ -	\$ 558
Loans collectively evaluated								
for impairment	2,137	7,528	55	556	220	34	21	10,551
Allowance for loan losses on								
originated and purchased loans	2,288	7,916	55	556	239	34	21	11,109
Loans acquired at fair value:								