

Investors Bancorp Inc
Form 10-Q
May 11, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended: March 31, 2009

Commission file number: 0-51557

Investors Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

22-3493930

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

101 JFK Parkway, Short Hills, New Jersey 07078

(Address of principal executive offices)

(973) 924-5100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

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

(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

As of April 30, 2009 there were 109,052,929 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 64,844,373 shares, or 59.46% of the Registrant's outstanding common stock, were held by Investors Bancorp, MHC, the Registrant's mutual holding company.

Investors Bancorp, Inc.
FORM 10-Q
Index

Page

Part I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets as of March 31, 2009 (unaudited) and June 30, 2008 3

Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2009 and 2008 (unaudited) 4

Consolidated Statements of Stockholders' Equity for the Nine Months Ended March 31, 2009 and 2008 (unaudited) 5

Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2009 and 2008 (unaudited) 6

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures About Market Risk 33

Item 4. Controls and Procedures 35

Part II. Other Information

Item 1. Legal Proceedings 36

Item 1A. Risk Factors 36

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 36

Item 3. Defaults upon Senior Securities 36

Item 4. Submission of Matters to a Vote of Security Holders 36

Item 5. Other Information 37

Item 6. Exhibits 37

Signature Page

EX-31.1: CERTIFICATION
EX-31.2: CERTIFICATION

EX-32: CERTIFICATION

2

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****INVESTORS BANCORP, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

March 31, 2009 (Unaudited) and June 30, 2008

	March 31, 2009	June 30, 2008
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 322,469	22,823
Securities available-for-sale, at estimated fair value	166,584	203,032
Securities held-to-maturity, net (estimated fair value of \$948,896 and \$1,198,053 at March 31, 2009 and June 30, 2008, respectively)	930,349	1,255,054
Loans receivable, net	5,560,678	4,670,150
Loans held-for-sale	37,220	9,814
Stock in the Federal Home Loan Bank	69,574	60,935
Accrued interest receivable	32,535	27,716
Office properties and equipment, net	34,894	29,710
Net deferred tax asset	108,214	40,702
Bank owned life insurance contract	98,409	96,170
Other assets	5,907	3,036
 Total assets	 \$ 7,366,833	 6,419,142
 Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 4,770,178	3,970,275
Borrowed funds	1,755,562	1,563,583
Advance payments by borrowers for taxes and insurance	24,015	21,829
Other liabilities	50,219	34,917
 Total liabilities	 6,599,974	 5,590,604
 Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 109,052,929 and 109,010,756 outstanding at March 31, 2009 and June 30, 2008, respectively	532	532
Additional paid-in capital	522,126	514,613
Retained earnings	415,612	486,244
Treasury stock, at cost; 8,967,351 and 9,009,524 shares at March 31, 2009 and June 30, 2008, respectively	(128,121)	(128,977)

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Unallocated common stock held by the employee stock ownership plan	(36,514)	(37,578)
Accumulated other comprehensive loss	(6,776)	(6,296)

Total stockholders' equity	766,859	828,538
----------------------------	---------	---------

Total liabilities and stockholders' equity	\$ 7,366,833	6,419,142
--	--------------	-----------

See accompanying notes to consolidated financial statements.

3

Table of Contents**INVESTORS BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Operations**
(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2009	2008	2009	2008
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	\$ 76,723	57,605	225,494	168,262
Securities:				
Government-sponsored enterprise obligations	304	1,119	1,295	4,024
Mortgage-backed securities	11,946	15,346	38,219	48,717
Equity securities available-for-sale	1	68	64	224
Municipal bonds and other debt	2,986	2,627	7,372	8,773
Interest-bearing deposits	119	258	158	814
Repurchase agreements		162		162
Federal Home Loan Bank stock	670	975	2,094	2,375
Total interest and dividend income	92,749	78,160	274,696	233,351
Interest expense:				
Deposits	33,900	38,395	96,837	118,206
Borrowings	17,691	12,887	55,053	41,414
Total interest expense	51,591	51,282	151,890	159,620
Net interest income	41,158	26,878	122,806	73,731
Provision for loan losses	8,000	997	21,000	2,946
Net interest income after provision for loan losses	33,158	25,881	101,806	70,785
Non-interest income (loss) :				
Fees and service charges	906	780	2,358	2,348
Income on bank owned life insurance contracts	256	950	2,239	3,016
Gain on sales of mortgage loans, net	2,163	234	2,229	466
Gain (loss) on securities transactions, net	2	(17)	(157,969)	(241)
Other income	90	188	302	366
Total non-interest income (loss)	3,417	2,135	(150,841)	5,955
Non-interest expenses:				
Compensation and fringe benefits	15,670	13,998	45,413	40,268
Advertising and promotional expense	640	643	2,400	1,890
Office occupancy and equipment expense	2,998	2,685	8,540	8,052
Federal deposit insurance premiums	1,800	115	3,157	335

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Stationery, printing, supplies and telephone	488	494	1,523	1,388
Legal, audit, accounting, and supervisory examination fees	599	580	1,789	1,616
Data processing service fees	1,113	1,197	3,348	3,375
Other operating expenses	1,147	922	3,466	3,175
Total non-interest expenses	24,455	20,634	69,636	60,099
Income (loss) before income tax expense (benefit)	12,120	7,382	(118,671)	16,641
Income tax expense (benefit)	5,042	2,847	(48,281)	6,091
Net income (loss)	\$ 7,078	4,535	(70,390)	10,550
Basic earnings (loss) per share	\$ 0.07	0.04	(0.68)	0.10
Diluted earnings per share	\$ 0.07	0.04	n/a	0.10
Weighted average shares outstanding				
Basic	104,192,971	104,697,317	103,977,771	105,809,536
Diluted	104,228,891	104,780,465	103,977,771	105,953,418
See accompanying notes to consolidated financial statements.				

4

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

Consolidated Statements of Stockholders' Equity

Nine months ended March 31, 2009 and 2008

(Unaudited)

	Common	Additional paid-in	Retained	Treasury	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive	Total stockholders equity
	stock	capital	earnings	stock		loss	
	(In thousands)						
Balance at June 30, 2007	\$ 532	506,026	470,205	(70,973)	(38,996)	(7,935)	858,859
Comprehensive income:							
Net income			10,550				10,550
Change in funded status of postretirement plan due to plan curtailment and settlement, net of tax expense of \$891						1,337	1,337
Change in funded status of retirement obligations, net of tax expense of \$54						80	80
Unrealized gain on securities available-for-sale, net of tax expense of \$1,520						2,175	2,175
Reclassification adjustment for losses included in net income						242	242
Total comprehensive income							14,384
Cummulative effect adjustment upon adoption of FIN-48			300				300
Purchase of treasury stock (3,470,200 shares)		(1,830)	(289)	(47,920)	2,119		(47,920)

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Treasury stock allocated to restricted stock plan Compensation cost for stock options and restricted stock ESOP shares allocated or committed to be released		7,215					7,215
		449			1,064		1,513
Balance at March 31, 2008	\$ 532	511,860	480,766	(116,774)	(37,932)	(4,101)	834,351
Balance at June 30, 2008	\$ 532	514,613	486,244	(128,977)	(37,578)	(6,296)	828,538
Comprehensive income:							
Net income			(70,390)				(70,390)
Change in funded status of retirement obligations, net of tax benefit of \$81						(116)	(116)
Unrealized loss on securities available- for-sale, net of tax benefit of \$303						(821)	(821)
Reclassification adjustment for losses included in net income						457	457
Total comprehensive income							(70,870)
Purchase of treasury stock (82,827 shares)				(1,097)			(1,097)
Treasury stock allocated to restricted stock plan Compensation cost for stock options and restricted stock ESOP shares allocated or committed to be		(1,711)	(242)	1,953			
		8,953					8,953
		271			1,064		1,335

released

Balance at

March 31, 2009	\$ 532	522,126	415,612	(128,121)	(36,514)	(6,776)	766,859
----------------	--------	---------	---------	-----------	----------	---------	---------

See accompanying notes to consolidated financial statements.

5

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

Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended March 31,	
	2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (70,390)	10,550
Adjustments to reconcile net income to net cash used in operating activities:		
ESOP and stock-based compensation expense	10,288	8,728
Amortization of premiums and accretion of discounts on securities, net	(895)	800
Amortization of premium and accretion of fees and costs on loans, net	3,755	1,549
Provision for loan losses	21,000	2,946
Depreciation and amortization of office properties and equipment	1,629	2,090
Loss on securities, net	157,969	241
Mortgage loans originated for sale	(437,142)	(59,982)
Proceeds from mortgage loan sales	411,965	57,136
Gain on sales of mortgage loans, net	(2,229)	(466)
Increase in bank owned life insurance contract	(2,239)	(3,016)
Increase in accrued interest	(4,819)	(1,718)
Deferred tax benefit	(67,131)	(1,639)
Increase in other assets	(2,871)	(29)
Increase in other liabilities	15,107	3,072
 Total adjustments	 104,387	 9,713
 Net cash provided by operating activities	 33,997	 20,263
 Cash flows from investing activities:		
Purchases of loans receivable	(973,835)	(467,362)
Net originations (pay down) of loans receivable	58,552	(22,647)
Purchases of debt securities held-to-maturity		(23,117)
Purchases of other investments available-for-sale	(100)	(1,400)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	149,079	178,178
Proceeds from calls/maturities on debt securities held-to-maturity	19,643	73,508
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	33,928	43,087
Redemption of equity securities available-for-sale	863	
Proceeds from redemptions of Federal Home Loan Bank stock	50,762	21,323
Purchases of Federal Home Loan Bank stock	(59,401)	(29,282)
Purchases of office properties and equipment	(6,813)	(2,869)

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Net cash used in investing activities	(727,322)	(230,581)
Cash flows from financing activities:		
Net increase in deposits	799,903	215,148
Net decrease in funds borrowed under short-term repurchase agreements	(25,000)	(160,000)
Proceeds from funds borrowed under other repurchase agreements	55,000	590,000
Repayments of funds borrowed under other repurchase agreements	(145,000)	(80,000)
Net increase (decrease) in other borrowings	306,979	(233,121)
Net increase in advance payments by borrowers for taxes and insurance	2,186	1,690
Purchase of treasury stock	(1,097)	(47,920)
Net cash provided by financing activities	992,971	285,797
Net increase in cash and cash equivalents	299,646	75,478
Cash and cash equivalents at beginning of the period	22,823	35,582
Cash and cash equivalents at end of the period	\$ 322,469	111,060
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 150,747	156,942
Income taxes	10,415	2,194
See accompanying notes to consolidated financial statements.		

Table of Contents

INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Savings Bank (Bank) (collectively, the Company) and the Bank's wholly-owned significant subsidiaries, ISB Mortgage Company LLC and ISB Asset Corporation.

On June 6, 2008, the Company completed its merger of Summit Federal Bankshares, Inc. (Summit Federal). This transaction involved the combination of mutual enterprises and, therefore, was accounted for as a pooling of interests. All financial information has been restated to include amounts for Summit Federal, based on historical costs, for all periods presented.

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three-month period ended March 31, 2009 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2009.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company's audited consolidated financial statements and notes to consolidated financial statements included in the Company's June 30, 2008 Annual Report on Form 10-K.

2. Mergers and Acquisitions

On December 15, 2008, the Company announced the signing of a definitive agreement under which the Company will acquire American Bancorp of New Jersey, a community bank with \$667 million in assets, \$499 million in deposits and five branches in Essex and Passaic Counties. On April 14, 2009 the Company announced it received all of the necessary regulatory approvals to proceed with the acquisition of American Bancorp. American Bancorp's annual meeting of shareholders, at which their shareholders will vote on the acquisition, is scheduled to be held on May 19, 2009. If shareholder approval is received, the merger is scheduled to close on or about May 29, 2009.

3. Earnings Per Share

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

Table of Contents

	For the Three Months Ended March 31,					
	2009			2008		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Net Income	\$ 7,078			\$ 4,535		
Basic earnings per share: Income available to common stockholders	\$ 7,078	104,192,971	\$ 0.07	\$ 4,535	104,697,317	\$ 0.04
Effect of dilutive common stock equivalents		35,920			83,148	
Diluted earnings per share: Income available to common stockholders	\$ 7,078	104,228,891	\$ 0.07	\$ 4,535	104,780,465	\$ 0.04
	For the Nine Months Ended March 31,					
	2009			2008		
	Loss	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Net (Loss) Income	\$ (70,390)			\$ 10,550		
Basic (loss) earnings per share: (Loss) income available to common stockholders	\$ (70,390)	103,977,771	\$ (0.68)	\$ 10,550	105,809,536	\$ 0.10
Effect of dilutive common stock equivalents					143,882	
Diluted (loss) earnings per share: (Loss) income available to common stockholders	\$ (70,390)	103,977,771	n/a	\$ 10,550	105,953,418	\$ 0.10

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

Loans receivable, net are summarized as follows:

	March 31, 2009	June 30, 2008
	(In thousands)	
Residential mortgage loans	\$ 4,605,008	4,009,563
Multi-family and commercial	496,308	225,154
Construction loans	315,151	260,177
Consumer and other loans	158,258	168,819
 Total loans	 5,574,725	 4,663,713
 Premiums on purchased loans, net	 23,462	 22,622
Deferred loan fees, net	(2,968)	(2,620)
Allowance for loan losses	(34,541)	(13,565)
 Net loans	 \$ 5,560,678	 4,670,150

5. Deposits

Deposits are summarized as follows:

	March 31, 2009	June 30, 2008
	(In thousands)	
Savings accounts	\$ 611,750	417,196
Checking accounts	886,264	401,100
Money market accounts	315,357	229,018
 Total core deposits	 1,813,371	 1,047,314
Certificates of deposit	2,956,807	2,922,961
	\$ 4,770,178	3,970,275

6. Equity Incentive Plan

During the nine months ended March 31, 2009, the Company recorded \$9.0 million of share-based expense, comprised of stock option expense of \$3.7 million and restricted stock expense of \$5.2 million.

During the nine months ended March 31, 2009, 365,000 options with an exercise price of \$13.69 and a grant date fair value of \$4.07 were granted and 7,500 options with an exercise price of \$15.35 and a grant date fair value of \$4.10 were forfeited. At March 31, 2009, 5,136,752 options, with a weighted average exercise price of \$15.02 and a weighted average grant date fair value of \$4.11, were outstanding, of which 3,037,149 were unvested. Expected future expense relating to the 3.0 million non-vested options outstanding as of March 31, 2009 is \$10.8 million over a weighted average period of 2.98 years.

During the nine months ended March 31, 2009, 125,000 shares of restricted stock with a grant date fair value of \$13.69 were granted and 465,249 shares with a

Table of Contents

weighted average grant date fair value of \$15.08 were vested. At March 31, 2009, 1,130,063 shares of restricted stock, with a weighted average grant date fair value of \$14.92, are unvested. Expected future compensation expense relating to the 1.1 million restricted shares at March 31, 2009 is \$14.5 million over a weighted average period of 3.0 years.

7. Net Periodic Benefit Plans Expense

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to all employees of the Company if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. The Company also has a nonqualified, defined benefit plan which provides benefits to its directors. The SERP and the Directors plan are unfunded and the costs of the plans are recognized over the period that services are provided. Effective December 31, 2006, the Company limited participation in the Directors plan to the current participants and placed a cap on director's fees for plan purposes at the December 31, 2006 rate.

The Company also provided (i) postretirement health care benefits to retired employees hired prior to April 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. During the year ended June 30, 2008, the Company curtailed the benefits to current employees and settled its obligations to retired employees.

The components of net periodic benefit expense are as follows:

	Three months ended March 31,			
	SERP and		Other Benefits	
	Directors	Plan		
	2009	2008	2009	2008
			(In thousands)	
Service cost	\$ 112	114	\$	12
Interest cost	257	239	11	61
Amortization of:				
Transition obligation			8	19
Prior service cost	25	25		
Net loss	32	29	(3)	(3)
Total net periodic benefit expense	\$ 426	407	\$ 16	89

	Nine months ended March 31,			
	SERP and		Other Benefits	
	Directors	Plan		
	2009	2008	2009	2008
			(In thousands)	
Service cost	\$ 337	342	\$	35
Interest cost	769	718	33	182
Amortization of:				
Transition obligation			26	56
Prior service cost	74	74		
Net loss	96	86	(11)	(7)
Total net periodic benefit expense	\$ 1,276	1,220	\$ 48	266

Table of Contents

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors' plans and other benefit plans in the fiscal year ending June 30, 2009.

The Company also maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. The Company contributed \$1,151,000 to the defined benefit pension plan during the first nine months of fiscal year 2009. We anticipate contributing funds to the plan to meet any minimum funding requirements.

Summit Federal, at the time of merger, had a funded non-contributory defined benefit pension plan covering all eligible employees, an unfunded non-qualified defined benefit SERP for the benefit of certain key employees and a postretirement life insurance benefit plan for the benefit of key employees. At March 31, 2009, the pension plan, SERP plan and postretirement life insurance plan had an accrued liability of \$868,000, \$951,000 and \$352,000, respectively. At March 31, 2009, the charges recognized in accumulated other comprehensive loss for the pension plan, the SERP plan and the postretirement life insurance plan were \$1,208,000, \$215,000 and \$173,000, respectively. For the nine months ended March 31, 2009 and 2008, the expense related to these plans was \$263,000 and \$170,000, respectively.

8. Income Taxes

Effective July 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Tax positions must meet the more-likely-than-not recognition threshold at the effective date in order for the related tax benefits to be recognized or continue to be recognized upon adoption of FIN 48. As a result of the adoption of FIN 48, the Company recognized a \$300,000 decrease in the liability for unrecognized tax benefits, which was accounted for as an addition to the July 1, 2007, balance of retained earnings. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense.

The Company files income tax returns in the United States federal jurisdiction and in the state of New Jersey jurisdiction. With few exceptions, we are no longer subject to federal and state income tax examinations by tax authorities for years prior to 2003. Currently, the Company is not under examination by any taxing authority.

9. Fair Value Measurements

Effective July 1, 2008, we adopted Statement of Financial Accounting Standards, or SFAS, No. 157 Fair Value Measurements and related interpretations, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. SFAS No. 157 was issued to increase consistency and comparability in reporting fair values. Our adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations.

Table of Contents

The following disclosures, which include certain disclosures which are generally not required in interim period financial statements, are included herein as a result of our adoption of SFAS No. 157.

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

In accordance with SFAS No. 157, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

We base our fair values on the price that would likely be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Securities available-for-sale

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Approximately 99% of our securities available-for-sale portfolio consists of mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the majority of securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark

Table of Contents

yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The remaining 1% of our securities available-for-sale portfolio is comprised primarily of private fund investments for which the issuer provides us prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at March 31, 2009.

	Carrying Value at March 31, 2009		
	Total	Level 1	Level 2
		1	Level 2
			3
		(In thousands)	
Securities available for sale:			
Mortgage-backed securities	\$ 165,172		165,172
Equity securities	1,412		1,412
	\$ 166,584		166,584

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

Securities held-to-maturity

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

Mortgage Servicing Rights, net

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

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an

Table of Contents

outstanding balance greater than \$3.0 million and on non-accrual status. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at March 31, 2009.

	Carrying Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
		(In thousands)		
Securities held-to-maturity	\$ 20,800		20,800	
MSR, net	961			961
Impaired loans	25,523			25,523
	\$ 47,284		20,800	26,484

10. Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. Under FSP FAS 157-4, if the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, transactions or quoted prices may not be determinative of fair value. Further analysis is required and significant adjustments to the transactions or quoted prices may be necessary. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact the adoption of FSP FAS 157-4 may have on its financial condition, results of operations and financial statement disclosures.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 and FAS 124-2 changes the amount of an other-than-temporary impairment that is recognized in earnings when there are non-credit losses on a debt security which management does not intend to sell and for which it is more-likely-than-not that the entity will not be required to sell the security prior to the recovery of the non-credit impairment. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income. FSP FAS 115-2 and FAS 124-2 also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this accounting pronouncement could result in a significant reclass to the components within stockholders' equity. In addition, this pronouncement will eliminate accretion income recognition

Table of Contents

pertaining to securities previously written down through an OTTI charge. The Company is currently evaluating the impact the adoption of FSP FAS 115-2 and FAS 124-2 will have on its financial condition, results of operations and financial statement disclosures.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, requiring disclosures about fair value of financial instruments for interim reporting periods of publicly traded company as well as in annual financial statements. The disclosure requirements are effective for interim reporting periods ending after June 15, 2009.

In June 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits* . EITF Issue No. 08-3 requires that all nonrefundable maintenance deposits be accounted for as a deposit with the deposit expensed or capitalized in accordance with the lessee's maintenance accounting policy when the underlying maintenance is performed. Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is to be recognized as additional expense at the time such determination is made. EITF Issue No. 08-3 is effective for fiscal years beginning after July 1, 2009. The adoption of EITF Issue No. 08-3 is not expected to have a material impact on its financial condition, results of operations or financial statement disclosures.

In February 2008, FSP No. 157-2, *Effective Date of FASB Statement No. 157*, was issued. FSP No. 157-2 delayed the application of SFAS No. 157 for non-financial assets and non-financial liabilities until July 1, 2009. The Company does not expect that the adoption of FSP No. 157-2 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No.141R, *Business Combinations*. SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. SFAS No. 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS No. 141R, all business combinations will be accounted for by applying the acquisition method. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date. The Company does not expect that the adoption of SFAS No. 141R will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS No. 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. The adoption of SFAS No. 160 did not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* . SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows.

Table of Contents

SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not have a material impact on the consolidated financial statements.

In June 2008, EITF 03-6-1 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect that the adoption of EITF 03-6-1 will have a material impact on its consolidated financial statements.

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

Forward Looking Statements

Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Investors Bancorp, Inc. operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations or interpretations of regulations affecting financial institutions, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

Executive Summary

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

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits,

Table of Contents

interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, non-performing loans and the prepayment rate on our mortgage-related assets. The Company's results of operations are also significantly affected by general economic conditions.

The financial services industry continues to face highly volatile and adverse economic conditions. The significant contributors to the disruptions include widespread subprime mortgage lending, illiquidity in the capital and credit markets, rising national and local unemployment, the continued decline of property values in real estate markets, and recent bank failures. While the government indicates it will continue to support the financial services industry it is difficult to determine the full impact of the various government support programs.

The Company previously announced that after careful consideration, it decided not to participate in the Treasury Department's Capital Purchase Program which is part of the broader Troubled Asset Relief Program (TARP). In reaching this decision, the Company felt its strong capital position and conservative lending practices would allow it to continue originating loans to qualified individuals and businesses in its local market and navigate through this difficult economic environment. In addition, the Company's mutual holding company parent, Investors Bancorp MHC, currently owns approximately 60% of the Company's outstanding stock. The Company therefore has the ability to raise additional capital through a second step stock offering. The Company maintains a strong tangible capital ratio of 10.48% and is considered well capitalized under regulatory guidelines. We believe we are well positioned to deal with this economic uncertainty and take advantage of opportunities to enhance our franchise.

At December 31, 2008, the Company recognized a \$152.8 million pre-tax, (\$90.6 million after-tax), non-cash other-than-temporary impairment (OTTI) charge related to our portfolio of pooled bank trust preferred collateralized debt obligations (CDOs). The portfolio is comprised of 31 securities whose book value of \$173.6 million was reduced to \$20.8 million as a result of this charge. The impairment was recognized because the market value of these securities continued to decline during the quarter and we do not believe the market value of these securities will recover within the foreseeable future. Management is analyzing the new accounting guidance issued by the Financial Accounting Standards Board (FASB) in April 2009 regarding OTTI impairment which must be adopted in the June 2009 quarter. The adoption of this accounting pronouncement could result in a significant reclass to the components within stockholders' equity. In addition, this pronouncement will eliminate accretion income recognition pertaining to securities previously written down through an OTTI charge.

Although we have suffered some of the negative consequences of the current state of the financial services industry, we have also been able to take advantage of opportunities within the market. The Company has benefited from the current interest rate environment. The yield on our interest-earning assets decreased by 11 basis points compared to the cost of our interest-bearing liabilities decreasing 85 basis points for the three months ended March 31, 2009 compared to the same period prior year. This was due to our interest-bearing liabilities repricing at a faster pace than interest-earning assets. This resulted in a \$14.3 million increase in our net interest income to \$41.2 million for the three months ended March 31, 2009 from \$26.9 million for the three months ended March 31, 2008.

The interest rate environment is important to our net interest income as is the composition of our balance sheet. The recent turmoil in the financial markets has created uncertainty and volatility

Table of Contents

for many financial institutions. This created an opportunity for us to add more loans and increase the size of our balance sheet. While we have increased the size of our balance sheet in this difficult environment we have remained focused on maintaining our loan underwriting standards. We have never originated or purchased, and our portfolio does not include, any sub-prime loans or option ARM loans.

Total loans increased to \$5.57 billion at March 31, 2009 from \$4.66 billion at June 30, 2008, an increase of 19.5%. The majority of the growth came from residential mortgage loans which grew 14.9% or \$595.4 million to \$4.61 billion. In order to diversify our loan portfolio we have continued our expansion into commercial real estate lending. During the nine months ended March 31, 2009 commercial real estate, construction and multi-family loans increased \$326.1 million or 67.2%. We believe this may provide us with an opportunity to increase net interest income and improve our interest rate risk position.

During the nine months ended March 31, 2009, we recorded a \$21.0 million provision for loan losses. This reflected the growth in our loan portfolio; internal downgrades of certain loans in the commercial real estate portfolio resulting in specific reserves; an increase in specific reserves on a previously disclosed impaired loan; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the continued adverse economic conditions in our lending area. Net charge-offs were immaterial at \$25,000 for the nine month period.

While our nonperforming loans have increased, we believe they remain at a manageable level. At March 31, 2009, nonperforming loans were \$80.1 million, or 1.44% of total loans, compared to \$19.4 million, or 0.42% of total loans at June 30, 2008. Additionally, we are mindful of potential problem loans as these loans may eventually be placed on non-accrual status. At March 31, 2009, there are 7 loans totaling \$19.2 million that the Company has deemed as potential problems. Management is actively monitoring these loans.

Total deposits increased by \$799.9 million to \$4.77 billion at March 31, 2009. Core deposits increased as we were successful in attracting new municipal deposit accounts, opened our newest branch during the quarter and added business from existing customer relationships, most notably the branches acquired in the Summit Federal merger in June 2008.

As a result of strong loan growth that exceeded the available cash flows from the investment, loan and deposit portfolios, borrowed funds increased \$192.0 million, or 12.3%, to \$1.76 billion at March 31, 2009 from \$1.56 billion at June 30, 2008.

Comparison of Financial Condition at March 31, 2009 and June 30, 2008

Total Assets. Total assets increased by \$947.7 million, or 14.8%, to \$7.37 billion at March 31, 2009 from \$6.42 billion at June 30, 2008. This increase was largely the result of the growth in our loan portfolio partially offset by the decrease in our securities portfolio.

Net Loans. Net loans, including loans held for sale, increased by \$917.9 million, or 19.6%, to \$5.60 billion at March 31, 2009 from \$4.68 billion at June 30, 2008. As many financial institutions have curtailed their lending operations, we have taken advantage of this opportunity to increase our loan portfolio without compromising our underwriting standards. The loans we originate and purchase are on properties in New Jersey and states in close proximity to New

Table of Contents

Jersey. We do not originate or purchase and our loan portfolio does not include any sub-prime loans or option ARMs. We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the nine months ended March 31, 2009 we originated \$300.4 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the nine months ended March 31, 2009, we purchased loans totaling \$670.0 million from these entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. During the nine months ended March 31, 2009, we took advantage of several opportunities to purchase \$303.8 million of residential mortgage loans that met our underwriting criteria on a bulk purchase basis. For the nine months ended March 31, 2009, we originated \$58.5 million in multi-family loans, \$117.8 million in commercial real estate loans and \$111.6 million in construction loans. We also purchased \$100.9 million of multi-family loans in the secondary market on a bulk purchase basis. This activity is consistent with our strategy to diversify our loan portfolio by adding more multi-family, commercial real estate and construction loans. The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower's loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower's ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at March 31, 2009 was \$511.8 million compared to \$450.0 million at June 30, 2008. The ability of borrowers to repay their obligations are dependent upon various factors including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control. The Company is, therefore, subject to risk of loss. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately lessen the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks. The allowance for loan losses increased by \$21.0 million to \$34.5 million at March 31, 2009 from \$13.6 million at June 30, 2008. The increase in our allowance reflects the continued growth in the loan portfolio; internal downgrades of certain loans in the commercial real estate portfolio resulting in specific reserves; an increase in specific reserves on a previously disclosed impaired loan; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the adverse economic conditions in our lending area. The comparative table below details non-performing loans and allowance for loan loss coverage ratios over the last four quarters.

Table of Contents

	March 31, 2009		December 31, 2008		September 30, 2008		June 30, 2008	
	# of loans	Amount	# of loans	Amount	# of loans	Amount	# of loans	Amount
(Dollars in millions)								
Residential and consumer	66	\$ 17.5	46	\$ 10.4	34	\$ 6.9	39	\$ 6.8
Multi-family	4	19.8	4	19.8	4	19.8	3	0.5
Commercial	2	1.9	1	0.6	1	0.6	0	0
Construction	9	40.9	5	17.0	4	14.8	2	12.1
Total Non-Performing Loans	81	\$ 80.1	56	\$ 47.8	43	\$ 42.1	44	\$ 19.4
Non-performing loans to total loans		1.44%		0.85%		0.79%		0.42%
Allowance for loan loss as a percent of non-performing loans		43.10%		55.53%		44.05%		70.03%
Allowance for loan losses as a percent of total loans		0.62%		0.47%		0.35%		0.29%

A non-performing multifamily loan for \$19.4 million has a current loan to value of approximately 55% and management believes that the probability of loss on this loan is low.

In addition to non-performing loans we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of March 31, 2009, the Company has six construction loans totaling \$17.1 million that it deemed potential problem loans. Three of the loans are current, one loan is 30 days delinquent and three loans are 60 days delinquent. Management is actively monitoring these loans.

Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the impact the deterioration of the real estate and economic environments in our lending area. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See *Critical Accounting Policies*.

Securities. Securities, in the aggregate, decreased by \$361.2 million, or 24.8%, to \$1.10 billion at March 31, 2009, from \$1.46 billion at June 30, 2008. The decrease is the result of the run-off of the securities portfolio in addition to the writedown of the book value of pooled bank trust preferred CDOs through a \$156.7 million pre-tax non-cash OTTI charge during the prior quarter. During the current quarter the Company recognized \$1.3 million in accretion income related to our expected cashflows relating to these securities. The cash flows from our securities portfolio are being used to help fund our loan growth. This is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio.

The securities portfolio also includes private label mortgage backed securities with an amortized cost of \$178.3 million and a fair value of \$166.0 million. Of these securities, \$169.2 million in amortized cost, \$158.7 million in fair value, are AAA rated and were originated in the period 2002-2004 and are performing in accordance with contractual terms. The decrease in fair value for these securities is attributed to changes in market interest rates. One

security with an

Table of Contents

amortized cost of \$8.0 million, \$6.3 million fair value, was downgraded to BBB in April 2009. Management will continue to monitor these securities for possible OTTI.

Net Deferred Tax Asset. Net deferred tax asset increased by \$67.5 million from \$40.7 million at June 30, 2008 to \$108.2 million at March 31, 2009 which is primarily attributed to the tax benefit recorded as a result of the OTTI charge on our pooled bank trust preferred CDOs.

Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets. The amount of stock we own in the Federal Home Loan Bank (FHLB) increased by \$8.6 million from \$60.9 million at June 30, 2008 to \$69.6 million at March 31, 2009 as a result of an increase in our level of borrowings at March 31, 2009. There was also an increase in accrued interest receivable of \$4.8 million resulting from an increase in the average balance of our interest-earning assets. Additionally, bank owned life insurance increased by \$2.2 million from \$96.2 million at June 30, 2008 to \$98.4 million at March 31, 2009.

Deposits. Deposits increased by \$799.9 million, or 20.1%, to \$4.77 billion at March 31, 2009 from \$3.97 billion at June 30, 2008. Checking account deposits, savings account deposits, money market account deposits and certificates of deposits increased by \$485.2 million, \$194.6 million, \$86.3 million and \$33.8 million, respectively. Deposits increased as we were successful in attracting new municipal deposit accounts, opened our newest branch during the quarter and added business from existing customer relationships, most notably the branches acquired in the Summit Federal merger in June 2008.

Borrowed Funds. Borrowed funds increased \$192.0 million, or 12.3%, to \$1.76 billion at March 31, 2009 from \$1.56 billion at June 30, 2008. We utilized wholesale borrowings to fund a portion of our loan growth because of the lower rates available in the wholesale markets.

Stockholders' Equity. Stockholders' equity decreased \$61.7 million to \$766.9 million at March 31, 2009 from \$828.5 million at June 30, 2008 primarily due to net loss of \$70.4 million for the nine months ended March 31, 2009. The decrease was partially offset by an increase in additional paid-in capital for compensation costs associated with stock options and restricted stock.

Average Balance Sheets for the Three Months ended March 31, 2009 and 2008

The following table presents certain information regarding Investors Bancorp, Inc.'s financial condition and net interest income for the three and nine months ended March 31, 2009 and 2008. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Table of Contents

	For the three months ended					
	March 31, 2009			March 31, 2008		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate (Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning assets:						
Interest-bearing deposits	\$ 205,083	\$ 119	0.23%	\$ 41,718	\$ 258	2.47%
Repurchase agreements				\$ 23,626	\$ 162	2.74%
Securities						
available-for-sale(1)	179,298	2,083	4.65%	227,877	2,625	4.61%
Securities held-to-maturity	960,946	13,154	5.48%	1,405,903	16,535	4.70%
Net loans	5,631,836	76,723	5.45%	4,053,804	57,605	5.68%
Stock in FHLB	73,062	670	3.67%	44,270	975	8.81%
Total interest-earning assets	7,050,225	92,749	5.26%	5,797,198	78,160	5.39%
Non-interest earning assets	258,737			185,045		
Total assets	\$ 7,308,962			\$ 5,982,243		
Interest-bearing Liabilities:						
Savings	\$ 555,319	\$ 3,242	2.34%	\$ 389,507	\$ 2,075	2.13%
Interest-bearing checking	711,075	4,082	2.30%	345,902	1,608	1.86%
Money market accounts	294,927	1,558	2.11%	208,798	1,225	2.35%
Certificates of deposit	3,025,100	25,018	3.31%	2,923,675	33,487	4.58%
Borrowed funds	1,836,931	17,691	3.85%	1,190,571	12,887	4.33%
Total interest-bearing liabilities	6,423,352	51,591	3.21%	5,058,453	51,282	4.06%
Non-interest bearing liabilities	134,248			97,722		
Total liabilities	6,557,600			5,156,175		
Stockholders equity	751,362			826,068		
Total liabilities and stockholders equity	\$ 7,308,962			\$ 5,982,243		
Net interest income		\$ 41,158			\$ 26,878	

Edgar Filing: Investors Bancorp Inc - Form 10-Q

Net interest rate spread(2)		2.05%	1.33%
Net interest earning assets(3)	\$ 626,873	\$ 738,745	
Net interest margin(4)		2.34%	1.85%
Ratio of interest-earning assets to total interest- bearing liabilities	1.10X	1.15X	

Table of Contents

	For Nine Months Ended			March 31, 2008		
	March 31, 2009			March 31, 2008		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate (Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning assets:						
Interest-bearing deposits	\$ 81,979	\$ 158	0.26%	\$ 31,414	\$ 814	3.45%
Repurchase agreements				7,732	162	2.79%
Securities						
available-for-sale (1)	191,002	6,574	4.59%	242,244	8,354	4.60%
Securities						
held-to-maturity	1,122,518	40,376	4.80%	1,483,264	53,384	4.80%
Net loans	5,371,836	225,494	5.60%	3,927,416	168,262	5.71%
Stock in FHLB	77,326	2,094	3.61%	43,327	2,375	7.31%
Total interest-earning assets	6,844,661	274,696	5.35%	5,735,397	233,351	5.42%
Non-interest-earning assets	213,655			184,797		
Total assets	\$ 7,058,316			\$ 5,920,194		
Interest-bearing liabilities:						
Savings	\$ 448,667	\$ 6,892	2.05%	\$ 361,733	\$ 5,662	2.09%
Interest-bearing checking	485,867	6,924	1.90%	353,957	5,959	2.24%
Money market accounts	275,134	4,582	2.22%	201,230	3,889	2.58%
Certificates of deposit	2,987,340	78,439	3.50%	2,896,570	102,696	4.73%
Borrowed funds	1,938,909	55,053	3.79%	1,170,464	41,414	4.72%
Total interest-bearing liabilities	6,135,917	151,890	3.30%	4,983,954	159,620	4.27%
Non-interest-bearing liabilities	120,936			102,084		
Total liabilities	6,256,853			5,086,038		
Stockholders' equity	801,463			834,156		
Total liabilities and stockholders' equity	\$ 7,058,316			\$ 5,920,194		
Net interest income		\$ 122,806			\$ 73,731	

Net interest rate spread (2)		2.05%	1.15%
Net interest-earning assets (3)	\$ 708,744	\$ 751,443	
Net interest margin (4)		2.39%	1.71%
Ratio of interest-earning assets to total interest- bearing liabilities	1.12X	1.15X	
(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.			
(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.			
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.			
(4) Net interest margin represents net interest income divided by average total			

interest-earning
assets.

Table of Contents

Comparison of Operating Results for the Three Months Ended March 31, 2009 and 2008

Net Income. The Company had net income of \$7.1 million for the three months ended March 31, 2009 compared to net income of \$4.5 million for the three months ended March 31, 2008.

Net Interest Income. Our net interest margin for the three months and nine months ended March 31, 2009 was positively impacted by the steeper yield curve which allowed us to reduce deposit rates and borrow money at lower rates while keeping mortgage rates relatively stable.

Net interest income increased by \$14.3 million, or 53.1%, to \$41.2 million for the three months ended March 31, 2009 from \$26.9 million for the three months ended March 31, 2008. The increase was caused by an 85 basis point decrease in our cost of interest-bearing liabilities to 3.21% for the three months ended March 31, 2009 from 4.06% for the three months ended March 31, 2008 and growth in average interest earning assets. This was partially offset by a 13 basis point decrease in our yield on interest-earning assets to 5.26% for the three months ended March 31, 2009 from 5.39% for the three months ended March 31, 2008. Our net interest margin improved by 49 basis points from 1.85% for the three months ended March 31, 2008 to 2.34% for the three months ended March 31, 2009.

Interest and Dividend Income. Total interest and dividend income increased by \$14.6 million, or 18.7%, to \$92.7 million for the three months ended March 31, 2009 from \$78.2 million for the three months ended March 31, 2008. This increase is attributed to the average balance of interest-earning assets increasing \$1.25 billion, or 21.6%, to \$7.05 billion for the three months ended March 31, 2009 from \$5.80 billion for the three months ended March 31, 2008. This was partially offset by a 13 basis point decrease in the weighted average yield on interest-earning assets to 5.26% for the three months ended March 31, 2009 compared to 5.39% for the three months ended March 31, 2008 as a result of the lower interest rate environment and the impact of non-performing loans.

Interest income on loans increased by \$19.1 million, or 33.2%, to \$76.7 million for the three months ended March 31, 2009 from \$57.6 million for the three months ended March 31, 2008, reflecting a \$1.58 billion, or 38.9%, increase in the average balance of net loans to \$5.63 billion for the three months ended March 31, 2009 from \$4.05 billion for the three months ended March 31, 2008. The average yield on loans decreased 23 basis points to 5.45% for the three months ended March 31, 2009 from 5.68% for the three months ended March 31, 2008 reflecting the current low interest rate environment and the impact of non-performing loans.

Interest income on all other interest-earning assets, excluding loans, decreased by \$4.5 million, or 22.0%, to \$16.0 million for the three months ended March 31, 2009 from \$20.6 million for the three months ended March 31, 2008. This decrease reflected a \$325.0 million decrease in the average balance of all other interest-earning assets, excluding loans, and a 20 basis point decrease in the average yield on all other interest-earning assets, excluding loans, to 4.52% for the three months ended March 31, 2009 from 4.72% for the three months ended March 31, 2008. The decrease in yield resulted from maintaining higher cash balances this quarter at lower yields and receiving less dividend income on stock in FHLB partially offset by \$1.3 million in accretion related to our expected cashflows on the previously written down trust preferred CDOs.

Interest Expense. Total interest expense increased by \$309,000, or 0.6%, to \$51.6 million for the three months ended March 31, 2009 from \$51.3 million for the three months ended March 31, 2008. This increase was due to the average balance of total interest-bearing liabilities

Table of Contents

increasing by \$1.36 billion, or 27.0%, to \$6.42 billion for the three months ended March 31, 2009 from \$5.06 billion for the three months ended March 31, 2008. This was significantly offset by the weighted average cost of total interest-bearing liabilities decreasing 85 basis points to 3.21% for the three months ended March 31, 2009 compared to 4.06% for the three months ended March 31, 2008 as the lower interest rate environment resulted in our certificate of deposit accounts repricing downward to current market rates.

Interest expense on interest-bearing deposits decreased \$4.5 million, or 11.7% to \$33.9 million for the three months ended March 31, 2009 from \$38.4 million for the three months ended March 31, 2008. This decrease was due to a 101 basis point decrease in the average cost of interest-bearing deposits to 2.96% for the three months ended March 31, 2009 from 3.97% for the three months ended March 31, 2008. This was partially offset by the average balance of interest-bearing deposits increasing \$718.5 million, or 18.6% to \$4.59 billion for the three months ended March 31, 2009 from \$3.87 billion for the three months ended March 31, 2008.

Interest expense on borrowed funds increased by \$4.8 million, or 37.3%, to \$17.7 million for the three months ended March 31, 2009 from \$12.9 million for the three months ended March 31, 2008. This increase is due to the average balance of borrowed funds increasing by \$646.4 million or 54.3%, to \$1.84 billion for the three months ended March 31, 2009 from \$1.19 billion for the three months ended March 31, 2008. This was partially offset by the average cost of borrowed funds decreasing 48 basis points to 3.85% for the three months ended March 31, 2009 from 4.33% for the three months ended March 31, 2008.

Provision for Loan Losses. Our provision for loan losses was \$8.0 million for the three month period ended March 31, 2009 compared to \$1.0 million for the three month period ended March 31, 2008. For the three months ended March 31, 2009, net charge-offs totaled \$8,000 compared to net charge-offs of \$22,000 for the three months ended March 31, 2008. The increase in our provision is due to internal downgrades of certain loans in the commercial real estate portfolio resulting in specific reserves; an increase in specific reserves on a previously disclosed impaired loan; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the adverse economic conditions in our lending area. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at March 31, 2009 and June 30, 2008*.

Non-interest Income. Total non-interest income increased by \$1.3 million to \$3.4 million for the three months ended March 31, 2009 from \$2.1 million for the three months ended March 31, 2008. The increase was primarily the result of a \$1.9 million increase in the gain on sale of residential mortgage loans as mortgage banking activity increased and we sold more loans to third parties including FNMA. This increase was offset by a decrease in bank owned life insurance income of \$700,000.

Non-interest Expenses. Total non-interest expenses increased by \$3.8 million, or 18.5%, to \$24.5 million for the three months ended March 31, 2009 from \$20.6 million for the three months ended March 31, 2008. The net increase is primarily attributed to a \$1.7 million increase in our FDIC premiums and a \$1.7 million increase in compensation and fringe benefits as a result of the accelerated vesting of two participants in the equity incentive plan; staff additions in our commercial real estate, retail banking areas and our mortgage company; additional equity incentive plan expense for grants made during 2008. Additionally, we incurred expenses associated with opening two new branches.

Table of Contents

Income Taxes. Income tax expense was \$5.0 million for the three months ended March 31, 2009 representing an effective tax expense rate of 41.6% for the period. There was an income tax expense of \$2.8 million for the three months ended March 31, 2008 representing an effective tax expense rate of 38.6% for the period.

Comparison of Operating Results for the Nine Months Ended March 31, 2009 and 2008

Net Income. The Company had a net loss for the nine months ended March 31, 2009 of \$70.4 million compared to net income of \$10.6 million for the nine months ended March 31, 2008. The net loss for the nine months ended March 31, 2009 was due to the Company recognizing a \$156.7 million pre-tax, non-cash OTTI charge at December 31, 2008 related to our portfolio of CDOs.

Net Interest Income. Our net interest margin for the nine months ended March 31, 2009 was positively impacted by the steeper yield curve which allowed us to reduce deposit rates and borrow money at lower rates while keeping mortgage rates relatively stable.

Net interest income increased by \$49.1 million, or 66.6%, to \$122.8 million for the nine months ended March 31, 2009 from \$73.7 million for the nine months ended March 31, 2008. The increase was caused primarily by a 97 basis point decrease in our cost of interest-bearing liabilities to 3.30% for the nine months ended March 31, 2009 from 4.27% for the nine months ended March 31, 2008 and growth in average interest earning assets. This was partially offset by a 7 basis point decrease in our yield on interest-earning assets to 5.35% for the nine months ended March 31, 2009 from 5.42% for the nine months ended March 31, 2008. Our net interest margin improved by 68 basis points from 1.71% for the nine months ended March 31, 2008 to 2.39% for the nine months ended March 31, 2009.

Interest and Dividend Income. Total interest and dividend income increased by \$41.3 million, or 17.7%, to \$274.7 million for the nine months ended March 31, 2009 from \$233.4 million for the nine months ended March 31, 2008. This increase is due to the average balance of interest-earning assets increasing \$1.11 billion, or 19.3%, to \$6.84 billion for the nine months ended March 31, 2009 from \$5.74 billion for the nine months ended March 31, 2008. This was partially offset by a 7 basis point decrease in the weighted average yield on interest-earning assets to 5.35% for the nine months ended March 31, 2009 compared to 5.42% for the nine months ended March 31, 2008.

Interest income on loans increased by \$57.2 million, or 34.0%, to \$225.5 million for the nine months ended March 31, 2009 from \$168.3 million for the nine months ended March 31, 2008, reflecting a \$1.44 billion, or 36.8%, increase in the average balance of net loans to \$5.37 billion for the nine months ended March 31, 2009 from \$3.93 billion for the nine months ended March 31, 2008. The average yield on loans decreased 11 basis points to 5.60% for the nine months ended March 31, 2009 from 5.71% for the nine months ended March 31, 2008 reflecting the current low interest rate environment and the impact of non-performing loans.

Interest income on all other interest-earning assets, excluding loans, decreased by \$15.9 million, or 24.4%, to \$49.2 million for the nine months ended March 31, 2009 from \$65.1 million for the nine months ended March 31, 2008. This decrease reflected a \$334.9 million decrease in the average balance of all other interest-earning assets and a 35 basis point decrease in the average

Table of Contents

yield on all other interest-earning assets, excluding loans, to 4.45% for the nine months ended March 31, 2009 from 4.80% for the nine months ended March 31, 2008. The decrease in yield resulted from maintaining higher balances of cash this quarter at lower yields and receiving less dividend income from the FHLB partially offset by \$1.3 million in accretion related to our expected cashflows on the previously written down trust preferred CDOs.

Interest Expense. Total interest expense decreased by \$7.7 million, or 4.8%, to \$151.9 million for the nine months ended March 31, 2009 from \$159.6 million for the nine months ended March 31, 2008. This decrease was due to the weighted average cost of total interest-bearing liabilities decreasing 97 basis points to 3.30% for the nine months ended March 31, 2009 compared to 4.27% for the nine months ended March 31, 2008 as the lower interest rate environment resulted in our certificate of deposit accounts repricing downward to current market rates. This was partially offset by the average balance of total interest-bearing liabilities increasing by \$1.15 billion, or 23.1%, to \$6.14 billion for the nine months ended March 31, 2009 from \$4.98 billion for the nine months ended March 31, 2008. Interest expense on interest-bearing deposits decreased \$21.4 million, or 18.1% to \$96.8 million for the nine months ended March 31, 2009 from \$118.2 million for the nine months ended March 31, 2008. This decrease was due to a 105 basis point decrease in the average cost of interest-bearing deposits to 3.08% for the nine months ended March 31, 2009 from 4.13% for the nine months ended March 31, 2008. This was partially offset by the average balance of interest-bearing deposits increasing \$383.5 million, or 10.1% to \$4.20 billion for the nine months ended March 31, 2009 from \$3.81 billion for the nine months ended March 31, 2008.

Interest expense on borrowed funds increased by \$13.6 million, or 32.9%, to \$55.1 million for the nine months ended March 31, 2009 from \$41.4 million for the nine months ended March 31, 2008. This increase is attributed to the average balance of borrowed funds increasing by \$768.4 million or 65.7%, to \$1.94 billion for the nine months ended March 31, 2009 from \$1.17 billion for the nine months ended March 31, 2008. This was partially offset by the average cost of borrowed funds decreasing 93 basis points to 3.79% for the nine months ended March 31, 2009 from 4.72% for the nine months ended March 31, 2008.

Provision for Loan Losses. Our provision for loan losses was \$21.0 million for the nine month period ended March 31, 2009 compared to \$2.9 million for the nine month period ended March 31, 2008. For the nine months ended March 31, 2009, net charge-offs totaled \$25,000 compared to net charge-offs of \$31,000 for the nine months ended March 31, 2008. The increase in our provision is due to continued growth in the loan portfolio; internal downgrades of certain loans in the commercial real estate portfolio resulting in specific reserves; an increase in specific reserves on a previously disclosed impaired loan; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an increase in loan delinquency and non-performing loans; and the adverse economic conditions in our lending area. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at March 31, 2009 and June 30, 2008*.

Non-interest Income. Total non-interest income decreased by \$156.8 million to a loss of \$150.8 million for the nine months ended March 31, 2009 from income of \$6.0 million for the nine months ended March 31, 2008. The decrease was primarily the result of a \$156.7 million pre-tax non-cash OTTI charge recognized on our pooled bank trust preferred CDOs for the nine months ended March 31, 2009.

Table of Contents

Non-interest Expenses. Total non-interest expenses increased by \$9.5 million, or 15.9%, to \$69.6 million for the nine months ended March 31, 2009 from \$60.1 million for the nine months ended March 31, 2008. Included in the prior year was a \$2.3 million gain recognized from the curtailment and settlement of our postretirement benefit obligation. Excluding this item, the net increase of \$7.2 million is attributed to a \$2.8 million increase on our FDIC premiums; compensation and fringe benefits increasing by \$2.8 million as a result of the accelerated vesting of two participants in the equity incentive plan; staff additions in our commercial real estate, retail banking areas and our mortgage company; additional equity incentive plan expense for grants made during 2008. The other increases are associated with opening two new branches and additional advertising expense to promote our deposit and loan growth initiatives.

Income Taxes. Income tax benefit was \$48.3 million for the nine months ended March 31, 2009 representing a 40.7% effective tax benefit rate for the period. The benefit is primarily the result of the OTTI charge taken on our pooled trust preferred securities. For the nine months ended March 31, 2008 there was an income tax expense of \$6.1 million representing an effective tax expense rate of 36.6% for the period.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank (FHLB) and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and other borrowings from the FHLB and other correspondent banks.

At March 31, 2009 the Company did not have any overnight borrowings outstanding compared to \$88.0 million of outstanding overnight borrowings at June 30, 2008. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total borrowings of \$1.76 billion at March 31, 2009, an increase from \$1.56 billion at June 30, 2008. This increase was primarily the result of strong loan growth that exceeded the available cash flows from the investment and deposit portfolios.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At March 31, 2009, outstanding commitments to originate loans totaled \$256.0 million; outstanding unused lines of credit totaled \$315.2 million; standby letters of credit totaled \$3.1 million and outstanding commitments to sell loans totaled \$67.7 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$2.41 billion at March 31, 2009. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Board of Directors approved a third share repurchase program at their January 2008 meeting, which authorized the repurchase of an additional 10% of the Company's its publicly held outstanding common stock, or 4,307,248 shares of Investors Bancorp, Inc. common stock in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three month period ended March 31, 2009, the

Table of Contents

Company did not repurchase any shares of its common stock. Under the current share repurchase program, 3,514,617 shares remain available for repurchase. As of March 31, 2009, a total of 10,896,052 shares have been purchased under Board authorized share repurchase programs, of which 1,928,701 shares were allocated to fund the restricted stock portion of the Company's 2006 Equity Incentive Plan. The remaining shares are held for general corporate use. As of March 31, 2009 Investors Savings Bank and Investors Bancorp, Inc. exceeded all regulatory capital requirements as follows:

	As of March 31, 2009			
	Actual Amount	Ratio (Dollars in thousands)	Required Amount	Ratio
Total capital (to risk-weighted assets)	\$694,763	17.3%	\$320,857	8.0%
Tier I capital (to risk-weighted assets)	660,222	16.5	160,429	4.0
Tier I capital (to average assets)	660,222	9.0	292,060	4.0

As of March 31, 2009, Investors Bancorp, Inc. had total capital to risk-weighted assets of 20.1%, Tier I capital to risk-weighted assets of 19.2% and Tier I to average assets of 10.6%.

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions primarily relate to lending commitments.

The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2009:

Contractual Obligations	Total	Less than One Year	One-Two Years	Two-Three Years	More than Three Years
Debt obligations (excluding capitalized leases)	\$1,755,562	280,000	330,000	610,000	535,562
Commitments to originate and purchase loans	\$ 256,046	256,046			
Commitments to sell loans	\$ 67,737	67,737			

Additionally, at March 31, 2009, the Company's commitments to fund unused lines of credit totaled \$315.2 million. Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, \$790.0 million of the borrowings are callable at the option of the lender.

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements. Commitments generally have a fixed expiration or other termination clauses which may or may not require a payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

Table of Contents

In addition to the contractual obligations previously discussed, we have other liabilities and capitalized and operating lease obligations. These contractual obligations as of March 31, 2009 have not changed significantly from June 30, 2008.

On April 14, 2009 the Company announced it received all of the necessary regulatory approvals to proceed with the acquisition of American Bancorp of New Jersey, Inc. The American Bancorp annual meeting of shareholders, at which their shareholders will vote on the acquisition, is scheduled to be held on May 19, 2009. If shareholder approval is received the merger is scheduled to close on or about May 29, 2009.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2008 Annual Report on Form 10-K.

Critical Accounting Policies

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

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

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

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than \$3.0 million and on non-accrual status. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company's definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the

Table of Contents

general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

On a quarterly basis, management's Allowance for Loan Loss Committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

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

Our primary lending emphasis has been the origination and purchase of residential mortgage loans and, to a lesser extent, commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the general economy, and a decline in real estate market values in New Jersey. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

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

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current operating environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-

Table of Contents

term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Deferred Income Taxes. The Company records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

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

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

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

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

Table of Contents

If it is determined that the value of any security has declined below its cost or amortized cost, and such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. During the nine months ended March 31, 2009, we recorded a \$156.7 million, pre-tax, non-cash, other-than-temporary impairment charge on our pooled bank trust preferred securities classified as held to maturity.

Stock-Based Compensation. We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with SFAS No. 123(R).

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Table of Contents

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

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

The net interest income analysis uses data derived from a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations and the U.S. Treasury yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually. Net interest income analysis also adjusts the dynamic asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

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

Quantitative Analysis. The table below sets forth, as of March 31, 2009 the estimated changes in our NPV and our annual net interest income that would result from the designated changes in the interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical

Table of Contents

interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.

Change in Interest Rates (basis points)	Net Portfolio Value (1),(2)			Net Interest Income (3) Increase (Decrease) in Estimated		
	Estimated NPV	Estimated Increase (Decrease)		Estimated Net Interest Income	Net Interest Income	
		Amount	Percent (Dollars in thousands)		Amount	Percent
+200bp	\$534,874	\$(261,825)	(32.9)%	\$176,443	\$ (8,777)	(4.7)%
0bp	\$796,699			\$185,220		
-100bp	\$812,474	\$ 15,775	2.0%	\$189,010	\$ 3,790	2.0%

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

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

(3) Assumes a gradual change in interest rates over a one year period at all maturities

The table set forth above indicates at March 31, 2009 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 32.9% decrease in NPV and a \$8.8 million or 4.7% decrease in annual net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 2.0% increase in NPV and a \$3.8 million or 2.0% increase in annual net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

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

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

Item 4. Controls and Procedures

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

Table of Contents

the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the Risk Factors disclosed in the Company's 2008 Annual Report on Form 10-K and Form 10-Q's filed with the Securities and Exchange Commission.

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

On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This program has no expiration date and has 3,514,617 shares yet to be purchased as of March 31, 2009. There were no repurchases of our common stock during the third quarter of fiscal 2009.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable

Table of Contents

Item 5. Other Information

Not applicable

Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

- 3.1 Certificate of Incorporation of Investors Bancorp, Inc.*
- 3.2 Bylaws of Investors Bancorp, Inc.*
- 4 Form of Common Stock Certificate of Investors Bancorp, Inc.*
- 10.1 Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers*
- 10.2 Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers *
- 10.3 Investors Savings Bank Director Retirement Plan*
- 10.4 Investors Savings Bank Supplemental Retirement Plan*
- 10.5 Investors Bancorp, Inc. Supplemental Wage Replacement Plan*
- 10.6 Executive Officer Annual Incentive Plan**
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed as exhibits to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-125703)

** Filed as Appendix A to the Company's definitive proxy statement with the Securities and

Exchange
Commission of
September 26,
2008.

Table of Contents

SIGNATURES

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

Investors Bancorp, Inc.

Dated: May 11, 2009

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

Dated: May 11, 2009

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