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Kearny Financial Corp.
Form 10-Q
November 12, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended

September 30, 2013

OR

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

For the transition period
from

to

Commission File Number 000-51093

KEARNY FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

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

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

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

07004-3510
(Zip Code)

Registrant's telephone number, including area code 973-244-4500

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

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

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

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting company []

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: November 8, 2013.

\$0.10 par value common stock - 66,226,540 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands, Except Share and Per Share Data)

	September 30, 2013 (Unaudited)	June 30, 2013
Assets		
Cash and amounts due from depository institutions	\$ 12,159	\$ 13,102
Interest-bearing deposits in other banks	106,027	113,932
Cash and Cash Equivalents	118,186	127,034
Debt securities available for sale (amortized cost \$307,213 and \$305,283)	300,544	300,122
Debt securities held to maturity (fair value \$204,185 and \$202,328)	210,943	210,015
Loans receivable, including unamortized yield adjustments of \$(1,980) and \$(847)	1,485,644	1,360,871
Less allowance for loan losses	(11,406)	(10,896)
Net Loans Receivable	1,474,238	1,349,975
Mortgage-backed securities available for sale (amortized cost \$751,445 and \$782,866)	752,216	780,652
Mortgage-backed securities held to maturity (fair value \$96,078 and \$96,447)	100,674	101,114
Premises and equipment	36,911	36,994
Federal Home Loan Bank of New York ("FHLB") stock	21,515	15,666
Interest receivable	8,508	8,028
Goodwill	108,591	108,591
Bank owned life insurance	86,786	86,084
Deferred income tax assets, net	10,469	9,782
Other assets	8,189	11,303
Total Assets	\$ 3,237,770	\$ 3,145,360
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$ 193,469	\$ 190,964
Interest-bearing	2,137,800	2,179,544
Total Deposits	2,331,269	2,370,508
Borrowings	417,118	287,695
Advance payments by borrowers for taxes	8,319	7,840
Other liabilities	11,805	11,610
Total Liabilities	2,768,511	2,677,653

Stockholders' Equity

Preferred stock, \$0.10 par value, 25,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.10 par value, 75,000,000 shares authorized; 72,737,500 shares issued; 66,380,740 and 66,500,740 shares outstanding, respectively	7,274	7,274
Paid-in capital	215,783	215,722
Retained earnings	328,753	326,167
Unearned Employee Stock Ownership Plan shares; 497,034 shares and 533,400 shares, respectively	(4,970)	(5,334)
Treasury stock, at cost; 6,356,760 shares and 6,236,760 shares, respectively	(73,194)	(71,983)
Accumulated other comprehensive loss	(4,387)	(4,139)
Total Stockholders' Equity	469,259	467,707
Total Liabilities and Stockholders' Equity	\$ 3,237,770	\$ 3,145,360

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2013	2012
Interest Income		
Loans	\$ 15,816	\$ 15,776
Mortgage-backed securities	5,554	7,003
Securities:		
Taxable	1,278	226
Tax-exempt	454	6
Other interest-earning assets	198	195
Total Interest Income	23,300	23,206
Interest Expense		
Deposits	3,632	4,277
Borrowings	1,472	2,054
Total Interest Expense	5,104	6,331
Net Interest Income	18,196	16,875
Provision for Loan Losses	1,168	339
Net Interest Income after Provision for Loan Losses	17,028	16,536
Non-Interest Income		
Fees and service charges	691	629
Gain on sale of loans	53	-
Gain (loss) on sale and write down of real estate owned	1	(294)
Income from bank owned life insurance	702	383
Electronic banking fees and charges	344	289
Miscellaneous	70	193
Total Non-Interest Income	1,861	1,200
Non-Interest Expenses		
Salaries and employee benefits	8,953	8,812
Net occupancy expense of premises	1,662	1,598
Equipment and systems	1,874	1,977
Advertising and marketing	251	286
Federal deposit insurance premium	512	552
Directors' compensation	172	167

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Miscellaneous	1,858	1,881
Total Non-Interest Expenses	\$ 15,282	\$ 15,273

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2013	2012
Income Before Income Taxes	\$ 3,607	\$ 2,463
Income Taxes	1,021	803
Net Income	\$ 2,586	\$ 1,660
Net Income per Common Share (EPS):		
Basic and Diluted	\$ 0.04	\$ 0.03
Weighted Average Number of Common Shares Outstanding:		
Basic and Diluted	65,936	66,256
Dividends Declared Per Common Share	\$ -	\$ -

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2013	2012
Net Income	\$ 2,586	\$ 1,660
Other Comprehensive (Loss) Income:		
Unrealized gain on securities available for sale, net of deferred income tax expense of: 2013 \$534; 2012 \$2,934	943	4,353
Fair value adjustments on derivatives, net of deferred income tax benefit of: 2013 (\$1,155) ; 2012 \$ -	(1,672)	-
Benefit plans, net of deferred income tax expense (benefit) of: 2013 \$333; 2012 (\$473)	481	(686)
Total Other Comprehensive (Loss) Income	(248)	3,667
Total Comprehensive Income	\$ 2,338	\$ 5,327

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended September 30, 2012
(In Thousands, Unaudited)

	Common Shares	Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - June 30, 2012	66,936	\$ 7,274	\$ 215,539	\$ 319,661	\$ (6,789)	\$ (67,664)	\$ 23,596	\$ 491,617
Net income	-	-	-	1,660	-	-	-	1,660
Other comprehensive income, net of income tax	-	-	-	-	-	-	3,667	3,667
ESOP shares committed to be released (36 shares)	-	-	(8)	-	364	-	-	356
Dividends contributed for payment of ESOP loan	-	-	(2)	-	-	-	-	(2)
Stock option expense	-	-	11	-	-	-	-	11
Treasury stock purchases	(66)	-	-	-	-	(647)	-	(647)
Restricted stock plan shares earned (4 shares)	-	-	42	-	-	-	-	42
Balance - September 30, 2012	66,870	\$ 7,274	\$ 215,582	\$ 321,321	\$ (6,425)	\$ (68,311)	\$ 27,263	\$ 496,704

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended September 30, 2013
(In Thousands, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance - June 30, 2013	66,501	\$ 7,274	\$ 215,722	\$ 326,167	\$ (5,334)	\$ (71,983)	\$ (4,139)	\$ 467,707
Net income	-	-	-	2,586	-	-	-	2,586
Other comprehensive loss, net of income tax	-	-	-	-	-	-	(248)	(248)
ESOP shares committed to be released (36 shares)	-	-	9	-	364	-	-	373
Stock option expense	-	-	10	-	-	-	-	10
Treasury stock purchases	(120)	-	-	-	-	(1,211)	-	(1,211)
Restricted stock plan shares earned (4 shares)	-	-	42	-	-	-	-	42
Balance - September 30, 2013	66,381	\$ 7,274	\$ 215,783	\$ 328,753	\$ (4,970)	\$ (73,194)	\$ (4,387)	\$ 469,259

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	\$2,586	\$1,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	622	653
Net amortization of premiums, discounts and loan fees and costs	985	2,763
Deferred income taxes	(400)) 181
Amortization of intangible assets	33	37
Amortization of benefit plans' unrecognized net loss	11	25
Provision for loan losses	1,168	339
(Gain) loss on write-down and sales of real estate owned	(1)) 294
Realized gain on sale of loans	(53)) -
Proceeds from sale of loans	496	-
Realized gain on disposition of premises and equipment	-	(100)
Increase in cash surrender value of bank owned life insurance	(702)) (383)
ESOP, stock option plan and restricted stock plan expenses	425	409
(Increase) decrease in interest receivable	(480)) 117
Decrease in other assets	135	820
Increase in interest payable	70	22
Increase (decrease) in other liabilities	983	(216)
Net Cash Provided by Operating Activities	5,878	6,621
Cash Flows from Investing Activities:		
Purchase of debt securities available for sale	(1,895)) -
Proceeds from repayments of debt securities available for sale	45	134
Purchase of debt securities held to maturity	(1,195)) (50)
Proceeds from calls and maturities of debt securities held to maturity	50	30,070
Proceeds from repayments of debt securities held to maturity	173	260
Purchase of loans	(56,319)) (4,144)
Net increase in loans receivable	(69,777)) (1,647)
Proceeds from sale of real estate owned	403	996
Purchases of mortgage-backed securities available for sale	(10,647)) (72,891)
Principal repayments on mortgage-backed securities available for sale	40,969	99,659
Principal repayments on mortgage-backed securities held to maturity	420	66
Purchase of FHLB stock	(10,260)) -
Redemption of FHLB stock	4,411	1
Purchase of bank owned life insurance	-	(503)
Proceeds from cash settlement of premises and equipment	-	200
Additions to premises and equipment	(539)) (194)

Net Cash (Used in) Provided by Investing Activities

\$(104,161) \$51,957

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2013	2012
Cash Flows from Financing Activities:		
Net decrease in deposits	\$(39,261)	\$(26,041)
Repayment of term FHLB advances	(100,021)	(21)
Proceeds from term FHLB advances	175,000	-
Net change in overnight borrowings	55,000	-
(Decrease) increase in other short-term borrowings	(551)	567
Increase in advance payments by borrowers for taxes	479	53
Purchase of common stock of Kearny Financial Corp. for treasury	(1,211)	(647)
Dividends contributed for payment of ESOP loan	-	(2)
Net Cash Provided by (Used in) Financing Activities	89,435	(26,091)
Net (Decrease) Increase in Cash and Cash Equivalents	(8,848)	32,487
Cash and Cash Equivalents – Beginning	127,034	155,584
Cash and Cash Equivalents – Ending	\$118,186	\$188,071
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	\$250	\$328
Interest	\$5,034	\$6,309
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	\$282	\$1,809

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited consolidated financial statements have been included. The results of operations for the three-month period ended September 30, 2013, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statement of financial condition for June 30, 2013 was derived from the Company’s 2013 annual report on Form 10-K. That data, along with the interim unaudited financial information presented in the consolidated statements of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in the Company’s 2013 annual report on Form 10-K.

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

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

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

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

	Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	\$ 2,586		
Basic earnings per share, income available to common stockholders	\$ 2,586	65,936	\$ 0.04
Effect of dilutive securities:			
Stock options	-	-	
	\$ 2,586	65,936	\$ 0.04

	Three Months Ended September 30, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	\$ 1,660		
Basic earnings per share, income available to common stockholders	\$ 1,660	66,256	\$ 0.03
Effect of dilutive securities:			
Stock options	-	-	
	\$ 1,660	66,256	\$ 0.03

During the three months ended September 30, 2013 and 2012, the average number of options which were considered anti-dilutive totaled approximately 3,158,000 and 3,193,000, respectively.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of September 30, 2013, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date this document was filed.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In January, 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. In the past, the FASB issued ASU 2011-11 as the result of a joint project with the IASB to enhance and provide converged disclosures about financial and derivative instruments that are offset on the balance sheet or are subject to an enforceable master netting arrangement. ASU 2011-11 did not change the conditions for when offsetting is appropriate in US GAAP. However, those conditions differ under IFRS, which results in the single largest financial reporting difference for certain financial institutions. As a result, ASU 2011-11 established new disclosures to reconcile US GAAP and IFRS primarily through the requirement to present information on both a “gross” and “net” basis in the footnotes.

After the issuance of ASU 2011-11, stakeholders informed the FASB that the scope of the new disclosures was unclear, particularly because many contracts contain standard commercial provisions that would equate to a master netting arrangement. In order to clarify its intent and narrow the scope of the new disclosures, the Board issued ASU 2013-01. It states that the disclosures established in ASU 2011-11 only apply to recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset on the balance sheet under ASC 210-20-45 or 815-10-45, or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset under ASC 210-20-45 or 815-10-45.

ASU 2013-01 is effective for fiscal years beginning on or after January 1, 2013 and interim periods within those years. Retrospective application is required. The new pronouncement did not have an impact on the Company’s consolidated financial statements.

On July 17, 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The ASU allows the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes. In the past, only rates on U.S. Treasury obligations and LIBOR were permitted. The ASU was issued as a result of changes in the marketplace that have occurred since the issuance of Statement 133, and more particularly, as a result of the 2008 financial crisis. ASU 2013-10 is applicable to all entities that elect to apply hedge accounting of the benchmark interest rate under Topic 815, Derivatives and Hedging. The ASU is effective July 17, 2013, but only for qualifying new or redesignated hedging relationships entered into on or after that date. In other words, retrospective adoption is not available because it would be inconsistent with the requirement to prepare appropriate documentation at the inception of a hedge. The new pronouncement did not have an impact on the Company’s consolidated financial statements.

6. STOCK REPURCHASE PLANS

On March 23, 2012, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 802,780 shares, or 5% of the Company’s outstanding stock held by persons other than Kearny MHC. Through September 30, 2013 the Company has repurchased a total of 591,100 shares in accordance with this repurchase plan at a total cost of approximately \$5,864,000 and at an average cost per share of \$9.92.

7. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities available for sale at September 30, 2013 and June 30, 2013 and stratification by contractual maturity of debt securities available for sale at September 30, 2013 are presented below:

		At September 30, 2013		
	Amortized'	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities available for sale:				
Debt securities:				
U.S. agency securities	\$ 4,906	\$ -	\$ 3	\$ 4,903
Obligations of state and political subdivisions	27,554	-	2,295	25,259
Asset-backed securities	25,404	-	1,147	24,257
Collateralized loan obligations	80,368	40	477	79,931
Corporate bonds	160,100	52	1,402	158,750
Trust preferred securities	8,881	-	1,437	7,444
Total debt securities	307,213	92	6,761	300,544
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	9,651	-	501	9,150
Federal National Mortgage Association	54,869	22	3,056	51,835
Total collateralized mortgage obligations	64,520	22	3,557	60,985
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	5,552	329	1	5,880
Federal Home Loan Mortgage Corporation	273,963	5,690	3,887	275,766
Federal National Mortgage Association	313,258	10,146	3,718	319,686
Total residential pass-through securities	592,773	16,165	7,606	601,332
Commercial pass-through securities:				
Federal Home Loan Mortgage Corporation	106	2	-	108

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Federal National Mortgage Association	94,046	2	4,257	89,791
Total commercial pass-through securities	94,152	4	4,257	89,899
Total mortgage-backed securities	751,445	16,191	15,420	752,216
Total securities available for sale	\$ 1,058,658	\$ 16,283	\$ 22,181	\$ 1,052,760

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	At September 30, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	\$ -	\$ -
Due after one year through five years	23,910	23,828
Due after five years through ten years	207,728	205,887
Due after ten years	75,575	70,829
Total	\$ 307,213	\$ 300,544

	At June 30, 2013		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
	(In Thousands)		
Securities available for sale:			Fair Value

Debt securities:

U.S. agency securities	\$ 4,955	\$ 60	\$ -	\$ 5,015
Obligations of state and political subdivisions	27,560	-	2,253	25,307
Asset-backed securities	25,417	1	620	24,798
Collateralized loan obligations	78,366	190	70	78,486
Corporate bonds	160,107	34	949	159,192
Trust preferred securities	8,878	-	1,554	7,324
Total debt securities	305,283	285	5,446	300,122

Mortgage-backed securities:

Collateralized mortgage obligations:

Federal Home Loan Mortgage Corporation	9,825	-	470	9,355
Federal National Mortgage Association	56,158	24	3,055	53,127
Total collateralized mortgage obligations	65,983	24	3,525	62,482

Mortgage pass-through securities:

Residential pass-through securities:

	5,889	444	-	6,333
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Government National Mortgage Association				
Federal Home Loan Mortgage Corporation	290,133	4,827	4,600	290,360
Federal National Mortgage Association	326,356	9,050	3,945	331,461
Total residential pass-through securities	622,378	14,321	8,545	628,154
Commercial pass-through securities:				
Federal Home Loan Mortgage Corporation	116	2	-	118
Federal National Mortgage Association	94,389	3	4,494	88,898
Total commercial pass-through securities	94,505	5	4,494	90,016
Total mortgage-backed securities	782,866	14,350	16,564	780,652
Total securities available for sale	\$ 1,088,149	\$ 14,635	\$ 22,010	\$ 1,080,774

There were no sales of securities available for sale during the three months ended September 30, 2013 and September 30, 2012. At September 30, 2013 and June 30, 2013, securities available for sale with carrying values of approximately \$91.4 million and \$99.4 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. As of those same dates, securities available for sale with carrying values of approximately \$7.1 million and \$4.4 million, respectively, were pledged to secure public funds on deposit.

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

8. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities held to maturity at September 30, 2013 and June 30, 2013 and stratification by contractual maturity of debt securities held to maturity at September 30, 2013 are presented below:

		At September 30, 2013		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities held to maturity:				
Debt securities:				
U.S. agency securities	\$ 144,575	\$12	\$2,744	\$ 141,843
Obligations of state and political subdivisions	66,368	6	4,032	62,342
Total debt securities	210,943	18	6,776	204,185
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	20	2	-	22
Federal National Mortgage Association	317	28	-	345
Non-agency securities	96	-	2	94
Total collateralized mortgage obligations	433	30	2	461
Mortgage pass-through securities:				
Residential pass-through securities:				
Federal Home Loan Mortgage Corporation	91	4	-	95
Federal National Mortgage Association	220	8	-	228
Total residential pass-through securities	311	12	-	323
Commercial pass-through securities:				
Federal National Mortgage Association	99,930	-	4,636	95,294
Total commercial pass-through securities	99,930	-	4,636	95,294
Total mortgage-backed securities	100,674	42	4,638	96,078
Total securities held to maturity	\$311,617	\$60	\$11,414	\$300,263

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	At September 30, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities held to maturity:		
Due in one year or less	\$ 3,221	\$ 3,227
Due after one year through five years	144,575	141,843
Due after five years through ten years	32,128	30,600
Due after ten years	31,019	28,515
Total	\$ 210,943	\$ 204,185

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		At June 30, 2013		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities held to maturity:				
Debt securities:				
U.S. agency securities	\$ 144,747	\$ 14	\$ 3,622	\$ 141,139
Obligations of state and political subdivisions	65,268	4	4,083	61,189
Total debt securities	210,015	18	7,705	202,328
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	22	3	-	25
Federal National Mortgage Association	350	32	-	382
Non-agency securities	105	3	2	106
Total collateralized mortgage obligations	477	38	2	513
Mortgage pass-through securities:				
Residential pass-through securities:				
Federal Home Loan Mortgage Corporation	98	4	-	102
Federal National Mortgage Association	231	9	-	240
Total residential pass-through securities	329	13	-	342
Commercial pass-through securities:				
Federal National Mortgage Association	100,308	-	4,716	95,592
Total commercial pass-through securities	100,308	-	4,716	95,592
Total mortgage-backed securities	101,114	51	4,718	96,447
Total securities held to maturity	\$ 311,129	\$ 69	\$ 12,423	\$ 298,775

There were no sales of securities held to maturity during the three months ended September 30, 2013 and September 30, 2012. At September 30, 2013 and June 30, 2013, securities held to maturity with carrying values of approximately \$123.3 million and \$123.3 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. Held to maturity securities were not utilized to secure public funds on deposit at September 30, 2013 or June 30, 2013.

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

9. IMPAIRMENT OF SECURITIES

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
Securities Available for Sale:						
At September 30, 2013:						
U.S. agency securities	\$4,867	\$3	\$-	\$-	\$4,867	\$3
Obligations of state and political subdivisions	25,260	2,295	-	-	25,260	2,295
Asset-backed securities	24,257	1,147	-	-	24,257	1,147
Collateralized loan obligations	57,519	477	-	-	57,519	477
Corporate bonds	138,698	1,402	-	-	138,698	1,402
Trust preferred securities	-	-	6,444	1,437	6,444	1,437
Collateralized mortgage obligations	59,415	3,557	-	-	59,415	3,557
Residential pass-through securities	192,540	7,606	-	-	192,540	7,606
Commercial pass-through securities	89,603	4,257	-	-	89,603	4,257
Total	\$592,159	\$20,744	\$6,444	\$1,437	\$598,603	\$22,181

At June 30, 2013:

Obligations of state and political subdivisions	\$25,307	\$2,253	\$-	\$-	\$25,307	\$2,253
Asset-backed securities	19,675	620	-	-	19,675	620
Collateralized loan obligations	27,930	70	-	-	27,930	70
Corporate bonds	149,190	949	-	-	149,190	949
Trust preferred securities	-	-	6,324	1,554	6,324	1,554
Collateralized mortgage obligations	60,740	3,525	-	-	60,740	3,525
Residential pass-through securities	244,429	8,545	-	-	244,429	8,545
Commercial pass-through securities	89,695	4,494	-	-	89,695	4,494

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Total	\$616,966	\$20,456	\$6,324	\$1,554	\$623,290	\$22,010
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The number of available for sale securities with unrealized losses at September 30, 2013 totaled 160 and included six U.S. agency securities, 70 municipal obligations, three asset-backed securities, 10 collateralized loan obligations, 13 corporate bonds, four trust preferred securities, four collateralized mortgage obligations, 33 residential pass-through securities and 17 commercial pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2013 totaled 153 and included 70 municipal obligations, two asset-backed securities, five collateralized loan obligations, 13 corporate bonds, four trust preferred securities, four collateralized mortgage obligations, 38 residential pass-through securities and 17 commercial pass-through securities.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Securities Held to Maturity:						
At September 30, 2013:						
U.S. agency securities	\$ 140,578	\$ 2,744	\$ -	\$ -	\$ 140,578	\$ 2,744
Obligations of state and political subdivisions	59,115	4,032	-	-	59,115	4,032
Collateralized mortgage obligations	55	1	39	1	94	2
Commercial pass-through securities	95,294	4,636	-	-	95,294	4,636
Total	\$ 295,042	\$ 11,413	\$ 39	\$ 1	\$ 295,081	\$ 11,414
At June 30, 2013:						
U.S. agency securities	\$ 139,699	\$ 3,622	\$ -	\$ -	\$ 139,699	\$ 3,622
Obligations of state and political subdivisions	59,109	4,083	-	-	59,109	4,083
Collateralized mortgage obligations	4	1	44	1	48	2
Commercial pass-through securities	90,935	4,716	-	-	90,935	4,716
Total	\$ 289,747	\$ 12,422	\$ 44	\$ 1	\$ 289,791	\$ 12,423

The number of held to maturity securities with unrealized losses at September 30, 2013 totaled 166 and included seven U.S. agency securities, 132 municipal obligations, seven collateralized mortgage obligations and 20 commercial pass-through securities. The number of held to maturity securities with unrealized losses at June 30, 2013 totaled 162 and included seven U.S. agency securities, 132 municipal obligations, four collateralized mortgage obligations and 19 commercial pass-through securities.

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

temporarily impaired:

- When the Company intends to sell the impaired debt security;

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- When the Company more likely than not will be required to sell the impaired debt security before recovery of its amortized cost (for example, whether liquidity requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs); and
- When an impaired debt security does not meet either of the two conditions above, but the Company does not expect to recover the entire amortized cost of the security. According to applicable accounting guidance for debt securities, this is generally when the present value of cash flows expected to be collected is less than the amortized cost of the security.

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

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

- The length of time and the extent (a percentage) to which the fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area (e.g. changes in the financial condition of the issuer of the security, or in the case of an asset backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement);
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security;
- Actual or expected failure of the issuer of the security to make scheduled interest or principal payments;
- Changes to the rating of the security by external rating agencies; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

At September 30, 2013 and June 30, 2013, the Company held no securities on which credit-related OTTI had been recognized in earnings. The following discussion summarizes the Company's rationale for recognizing the impairments reported in the tables above as "temporary" versus "other-than-temporary". Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

Mortgage-backed Securities. The carrying value of the Company's mortgage-backed securities totaled \$852.9 million at September 30, 2013 and comprised 62.5% of total investments and 26.3% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government agencies and/or government-sponsored entities ("GSEs") such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis during which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby strengthening the creditworthiness of the mortgage-backed securities issued by those agencies.

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

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

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

The market price of mortgage-backed securities, being the key measure of the fair value to an investor in such securities, is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of a security decreases its price. For example, during fiscal 2008 and fiscal 2009, the volatility and uncertainty in the marketplace had reduced the overall level of demand for mortgage-backed securities which generally had an adverse impact on their prices in the open market. This was further exacerbated by many larger institutions shedding mortgage-related assets to shrink their balance sheets for capital adequacy purposes thereby increasing the supply of such securities.

Since fiscal 2010, however, institutional demand for mortgage-backed securities has increased reflecting greater stability and liquidity in the financial markets coupled with the intervention of the Federal Reserve as a buyer/holder of such securities. Moreover, many financial institutions are experiencing the effect of diminished loan origination volume resulting in increased institutional demand for mortgage-backed securities as investment alternatives to loans with market prices of agency mortgage-backed securities generally reflecting that increased institutional demand.

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

Finally, the Company has the stated ability and intent to "hold to maturity" those securities so designated at September 30, 2013 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Moreover, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its U.S. agency and GSE mortgage-backed securities with unrealized losses at September 30, 2013 to be "other-than-temporarily" impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies and GSEs, the Company held a nominal balance of non-agency mortgage-backed securities at September 30, 2013. Unlike agency and GSE mortgage-backed securities, non-agency collateralized mortgage obligations are not explicitly guaranteed by a U.S. government sponsored entity. Rather, such securities generally utilize the structure of the larger investment vehicle to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying mortgage loans. The creditworthiness of certain tranches may also be further enhanced by additional credit insurance protection embedded within the terms of the total investment vehicle.

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

The classification of impairment as "temporary" is generally reinforced by the Company's stated intent and ability to "hold to maturity" all of its non-agency mortgage-backed securities which allows for an adequate timeframe during which the fair values of the impaired securities are expected to recover to the level of their amortized cost. However, in the event of a severe deterioration of a security's credit characteristics – including, but not limited to, a reduction in credit rating below certain internally defined rating thresholds and/or the recognition of credit-related impairment resulting from actual or expected deterioration of cash flows - the Company may re-evaluate and restate its intent to hold an impaired security until the expected recovery of its amortized cost.

For example, during the prior fiscal years ended June 30, 2013 and 2012, the Company re-evaluated its intent regarding the retention or sale of its impaired, non-agency collateralized mortgage obligations whose credit-ratings had fallen below the thresholds that generally support an investment grade assessment by the Company. The Company considered the combined effects of the severe deterioration of the securities' credit ratings since their acquisition as investment grade securities and the actual and anticipated cash flow losses that characterized most of the securities. Based on these factors,

the Company modified its intent regarding these impaired securities from “hold to recovery of amortized cost” to “sell” and sold such securities during the periods noted.

At September 30, 2013, the Company's remaining portfolio comprised seven non-agency CMOs held-to-maturity whose carrying values and market values totaled \$96,000 and \$94,000, respectively. The securities maintained their credit-ratings, where applicable, at levels supporting the investment grade assessment by the Company. The Company has the stated ability and intent to “hold to maturity” those securities at September 30, 2013 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of non-agency mortgage-backed securities with unrealized losses at September 30, 2013 to be “other-than-temporarily” impaired as of that date.

U.S. Agency Debt Securities. The carrying value of the Company’s U.S. agency debt securities totaled \$149.5 million at September 30, 2013 and comprised 11.0% of total investments and 4.6% of total assets as of that date. Such securities included \$144.6 million of fixed rate U.S. agency debentures and \$4.9 million of securities representing securitized pools of loans issued and fully guaranteed by the Small Business Administration (“SBA”), a U.S. government sponsored agency.

With credit risk being reduced to negligible levels due to the issuer’s guarantee, the unrealized losses on the Company’s investment in U.S. agency debentures are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company’s U.S. agency debentures, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are generally characterized by fixed interest rates, decline and vice-versa.

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

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

Finally, the Company has the stated ability and intent to “hold to maturity” those securities so designated at September 30, 2013 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of U.S. agency securities with unrealized losses at September 30, 2013 to be “other-than-temporarily” impaired as of that date.

Obligations of State and Political Subdivisions. The carrying value of the Company’s securities representing obligations of state and political subdivisions totaled \$91.6 million at September 30, 2013 and comprised 6.7% of total investments and 2.8% of total assets as of that date. Such securities include

approximately \$89.0 million of highly-rated, fixed rate bank qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. The portfolio also includes a nominal balance of non-rated municipal obligations totaling approximately \$2.6 million comprising nine short term, bond anticipation notes ("BANs") issued by a total of four New Jersey municipalities with whom the Company maintains or seeks to maintain deposit relationships. At September 30, 2013, the fair value of each of the Company's BANs equaled or exceeded their respective carrying values resulting in no reported impairment on those securities as of that date.

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

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

At September 30, 2013, each of the Company's impaired municipal obligations were consistently rated by Moody's Investors Service ("Moody's") and Standard & Poor's Financial Services ("S&P") well above the thresholds that generally support the Company's investment grade assessment with such ratings equaling or exceeding "A" or higher by S&P and/or "A1" or higher by Moody's, where rated by those agencies.

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

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

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

Finally, the Company has the stated ability and intent to "hold to maturity" those securities so designated at September 30, 2013 and does not intend to sell the temporarily impaired available for sale

securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of obligations of state and political subdivisions with unrealized losses at September 30, 2013 to be "other-than-temporarily" impaired as of that date.

Asset-backed Securities. The carrying value of the Company's asset-backed securities totaled \$24.3 million at September 30, 2013 and comprised 1.8% of total investments and less than once percent of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities representing securitized federal education loans with 97% U.S. government guarantees. The securities represent tranches of a larger investment vehicle designed to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans. The Company's securities represent the highest credit-quality tranches within the overall structures with each being rated "AA+" by S&P at September 30, 2013.

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

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

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2013. In light of the factors noted, the Company does not consider its balance of asset-backed securities with unrealized losses at September 30, 2013 to be "other-than-temporarily" impaired as of that date.

Collateralized Loan Obligations. The outstanding balance of the Company's collateralized loan obligations totaled \$79.9 million at September 30, 2013 and comprised 5.9% of total investments and 2.5% of total assets as of that date. This category of securities is comprised entirely of structured,

floating-rate securities comprised primarily of securitized commercial loans to large, U.S. corporations. The Company's securities represent tranches of a larger investment vehicle designed to reallocate cash flows and credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans.

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

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

At September 30, 2013, each of the Company's impaired collateralized loan obligations were consistently rated by Moody's and S&P well above the thresholds that generally support the Company's investment grade assessment with such ratings equaling or exceeding "AA" or higher by S&P and/or "Aa1" or higher by Moody's, where rated by those agencies.

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

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

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position

as of September 30, 2013. In light of the factors noted, the Company does not consider its balance of collateralized loan obligations with unrealized losses at September 30, 2013 to be “other-than-temporarily” impaired as of that date.

Corporate Bonds. The carrying value of the Company’s corporate bonds totaled \$158.8 million at September 30, 2013 and comprised 11.6% of total investments and 4.9% of total assets as of that date. This category of securities is comprised entirely of floating-rate corporate debt obligations of large financial institutions.

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

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

At September 30, 2013, each of the Company’s impaired corporate bonds were consistently rated by Moody’s and S&P well above the thresholds that generally support the Company’s investment grade assessment with such ratings equaling or exceeding “A-” or higher by S&P and/or “A3” or higher by Moody’s, where rated by those agencies.

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

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

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost.

Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2013. In light of the factors noted, the Company does not consider its balance of corporate bonds with unrealized losses at September 30, 2013 to be “other-than-temporarily” impaired as of that date.

Trust Preferred Securities. The carrying value of the Company’s trust preferred securities totaled \$7.4 million at September 30, 2013 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five “single-issuer” (i.e. non-pooled) trust preferred securities, four of which are impaired as of September 30, 2013, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company’s five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

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

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

At September 30, 2013, the Company owned two securities at an amortized cost of \$3.0 million that were consistently rated by Moody’s and S&P above the thresholds that generally support the Company’s investment grade assessment. The securities were originally issued through Chase Capital II and currently represent de-facto obligations of JPMorgan Chase & Co.

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

With regard to interest rates, the Company’s impaired trust preferred securities are variable rate securities whose interest rates generally float with three month LIBOR plus a margin. Based upon the historically low level of short term market interest rates, the current yield on these securities is comparatively low. Consequently, the fair value of the securities, as determined based upon their market price, reflects the adverse effects of the historically low market interest rates at September 30, 2013.

More significantly, the market prices of the impaired trust preferred securities also currently reflect the effect of reduced demand for such securities given the increasingly credit risk-averse nature of financial institutions in the current marketplace. Additionally, such prices reflect the effects of increased supply arising from financial institutions selling such investments and reducing assets for capital adequacy purposes, as noted earlier.

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

The Company's evaluation of the unrealized loss associated with these securities considered a variety of factors to determine if any portion of the impairment was credit-related at September 30, 2013. Factors generally considered in such evaluations included the financial strength and viability of the issuer and its parent company, the security's historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security's current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security's expected future cash flows in relation to its amortized cost basis.

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

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2013. In light of the factors noted, the Company does not consider its investments in trust preferred securities with unrealized losses at September 30, 2013 to be "other-than-temporarily" impaired as of that date.

10. LOAN QUALITY AND ALLOWANCE FOR LOAN LOSSES

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

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

nonaccrual status for a period of no less than six months after restructuring, irrespective of past due status. The sum of nonaccrual loans plus accruing loans that are 90 days or more past due are generally defined as “nonperforming loans”.

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

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

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

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

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

At September 30, 2013, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately \$12,481,000 and \$10,178,000 respectively. By comparison, at June 30, 2013, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately \$9,874,000 and \$6,050,000 respectively. The increase in the balances between comparative periods primarily reflects the Company’s repurchase of a prior participant’s interest in a performing loan that was originally designated as credit impaired at the time of acquisition.

The carrying amount of acquired credit-impaired loans for which interest is not being recognized due to the uncertainty of the cash flows relating to such loans totaled \$1,939,000 and \$1,952,000 at September 30, 2013 and June 30, 2013, respectively.

The balance of the allowance for loan losses at September 30, 2013 and June 30, 2013 included approximately \$16,000 and \$17,000 of valuation allowances, respectively, for a specifically identified impairment attributable to acquired credit-impaired loans. The valuation allowances were attributable to additional impairment recognized on the applicable loans subsequent to their acquisition, net of any charge offs recognized during that time.

The following table presents the changes in the accretable yield relating to the acquired credit-impaired loans for the three months ended September 30, 2013 and September 30, 2012.

	Three Months Ended September 30, 2013 (in thousands)	Three Months Ended September 30, 2012 (in thousands)
Beginning balance	\$ 741	\$ 1,461
Accretion to interest income	(55)	(188)
Disposals	-	(91)
Reclassifications from nonaccretable difference	1,494	-
Ending balance	\$ 2,180	\$ 1,182

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

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

Management evaluates loans classified as substandard or doubtful for impairment in accordance with applicable accounting requirements. As discussed in greater detail below, a valuation allowance is established through the provision for loan losses for any impairment identified through such evaluations. To the extent that impairment identified on a loan is classified as "Loss", that portion of the loan is charged off against the allowance for loan losses. In a limited number of cases, the entire net carrying value of a loan may be determined to be impaired based upon a collateral-dependent impairment analysis. However, the borrower's adherence to contractual repayment terms precludes the recognition of a "Loss" classification and charge off. In these limited cases, a valuation allowance equal to 100% of the impaired loan's carrying value may be maintained against the net carrying value of the asset.

The classification of loan impairment as "Loss" is based upon a confirmed expectation for loss. For loans primarily secured by real estate, the expectation for loss is generally confirmed when: (a) impairment is identified on a loan individually evaluated in the manner described below and, (b) the loan is presumed to be collateral-dependent such that the source of loan repayment is expected to arise solely from sale of the collateral securing the applicable loan. Impairment identified on non-collateral-dependent loans may or may not be eligible for a "Loss" classification depending upon the other salient

facts and circumstances that affect the manner and likelihood of loan repayment. However, loan impairment that is classified as “Loss” is charged off against the ALLL concurrent with that classification.

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

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

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

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

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

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

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

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

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

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

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

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary segments: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans. Each primary segment is further stratified to distinguish between loans originated and purchased through third parties from loans acquired through business combinations. Commercial business loans include secured and unsecured loans as well as loans originated through SBA programs. Additional criteria may be used to further group loans with common risk characteristics. For example, such criteria may distinguish between loans secured by different collateral types or separately identify loans supported by government guarantees such as those issued by the SBA.

In regard to historical loss factors, the Company's allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company currently utilizes a two-year moving average of annual net charge-off rates (charge-offs net of recoveries) by loan segment, where available, to calculate its actual, historical loss experience. The outstanding principal balance of the non-impaired portion of each loan segment is multiplied by the applicable historical loss factor to estimate the level of probable losses based upon the Company's historical loss experience.

The timeframe between when loan impairment is first identified by the Company and when such impairment may ultimately be charged off varies by loan type. For example, unsecured consumer and commercial loans are generally classified as "Loss" at 120 days past due resulting in their outstanding balances being charged off at that time.

By contrast, the timing of charges offs regarding the impairment associated with secured loans has historically been far more variable. The Company's secured loans, comprising a large majority of its loan total portfolio, consist primarily of residential and nonresidential mortgage loans and commercial/business loans secured by properties located in New Jersey where the foreclosure process currently takes 24-36 months to complete. The charge off of impairments relating to secured loans are generally recognized upon the confirmation of an expected loss which is generally triggered by the condition of collateral dependency. While the facts and circumstances that affect the manner and likelihood of repayment vary from loan to loan, the Company generally considers the referral of a loan to foreclosure, coupled with the absence of other viable sources of loan repayment, to be demonstrable evidence of collateral dependency. Depending upon the nature of the collections process applicable to a particular loan, an early determination of collateral dependency could result in a nearly concurrent charge off of a newly identified impairment. By contrast, a presumption of collateral dependency may only be determined after the completion of lengthy loan collection and/or workout efforts, including bankruptcy proceedings, which may extend several months or more after a loan's impairment is first identified.

As noted, the second tier of the Company's allowance for loan loss calculation also utilizes environmental loss factors to estimate the probable losses within the loan portfolio. Environmental loss factors are based upon specific qualitative criteria representing key sources of risk within the loan portfolio. Such risk criteria includes the level of and trends in nonperforming loans; the effects of changes in credit policy; the experience, ability and depth of the lending function's management and staff; national and local economic trends and conditions; credit risk concentrations and changes in local and regional real estate values. For each category of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk), with higher values potentially ascribed to exceptional levels of risk that exceed the standard range, as appropriate. The sum of the risk values, expressed as a whole number, is multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each loan category.

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

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

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

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

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

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

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

The following tables present the balance of the allowance for loan losses at September 30, 2013 and June 30, 2013 based upon the calculation methodology described above. The table identifies the valuation allowances attributable to identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, as well as those valuation allowances for impairments on loans evaluated collectively. The underlying balance of loans receivable applicable to each category is also presented. The balance of loans receivable reported in the tables below excludes yield adjustments and the allowance for loan losses.

Allowance for Loan Losses and Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans (In Thousands)	Home Equity Lines of Credit	Other Consumer	Total
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$832	\$ 391	\$ -	\$ -	\$91	\$-	\$ -	\$1,314
Loans collectively evaluated for impairment	2,691	5,332	72	258	299	36	11	8,699
Allowance for loan losses on originated and purchased loans	3,523	5,723	72	258	390	36	11	10,013
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	16	-	-	-	16
Other acquired loans individually evaluated for impairment	-	44	-	394	-	-	-	438
Loans collectively evaluated for impairment	24	453	31	312	79	40	-	939
Allowance for loan losses on loans acquired at fair value	24	497	31	722	79	40	-	1,393
Total allowance for loan losses	\$3,547	\$ 6,220	\$ 103	\$ 980	\$469	\$76	\$ 11	\$11,406

Allowance for Loan Losses and Loans Receivable
at September 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Changes in the allowance for loan losses for the three months ended September 30, 2013:								
At June 30, 2013:								
Allocated	\$3,660	\$ 5,359	\$ 81	\$ 1,218	\$490	\$76	\$ 12	\$10,896
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	3,660	5,359	81	1,218	490	76	12	10,896
Total charge offs	(230)	(34)	-	(408)	(34)	-	(1)	(707)
Total recoveries	18	28	-	2	1	-	-	49
Total allocated provisions	99	867	22	168	12	-	-	1,168
Total unallocated provisions	-	-	-	-	-	-	-	-
At September 30, 2013:								
Allocated	3,547	6,220	103	980	469	76	11	11,406
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$3,547	\$ 6,220	\$ 103	\$ 980	\$469	\$76	\$ 11	\$11,406

Allowance for Loan Losses and Loans Receivable
at September 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Changes in the allowance for loan losses for the three months ended September 30, 2012:								
At June 30, 2012:								
Allocated	\$4,572	\$ 3,443	\$ 277	\$ 1,310	\$447	\$54	\$ 14	\$10,117
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	4,572	3,443	277	1,310	447	54	14	10,117
Total charge offs	(499)	(13)	-	(116)	(6)	-	(1)	(635)
Total recoveries	9	-	-	17	-	2	-	28
Total allocated provisions	33	162	(45)	190	(12)	11	-	339
Total unallocated provisions	-	-	-	-	-	-	-	-
At September 30, 2012:								
Allocated	4,115	3,592	232	1,401	429	67	13	9,849
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$4,115	\$ 3,592	\$ 232	\$ 1,401	\$429	\$67	\$ 13	\$9,849

Allowance for Loan Losses and Loans Receivable
at September 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$ 14,514	\$ 7,926	\$ -	\$ 1,073	\$ 799	\$ -	\$ -	\$ 24,312
Loans collectively evaluated for impairment	494,621	664,478	5,299	26,338	66,332	10,586	4,384	1,272,038
Total originated and purchased loans	509,135	672,404	5,299	27,411	67,131	10,586	4,384	1,296,350
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	1,347	315	8,516	-	-	-	10,178
Other acquired loans individually evaluated for impairment	359	2,063	2,122	2,280	541	625	-	7,990
Loans collectively evaluated for impairment	1,276	109,655	2,556	32,255	12,151	15,085	128	173,106
Total loans acquired at fair value	1,635	113,065	4,993	43,051	12,692	15,710	128	191,274
Total loans	\$ 510,770	\$ 785,469	\$ 10,292	\$ 70,462	\$ 79,823	\$ 26,296	\$ 4,512	1,487,624
Unamortized yield adjustments								(1,980)
Loans receivable								\$ 1,485,644

Allowance for Loan Losses and Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$697	\$ 430	\$ -	\$ -	\$110	\$-	\$ -	\$1,237
Loans collectively evaluated for impairment	2,939	4,356	50	252	300	35	12	7,944
Allowance for loan losses on originated and purchased loans	3,636	4,786	50	252	410	35	12	9,181
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	17	-	-	-	17
Other acquired loans individually evaluated for impairment	-	84	-	740	-	-	-	824
Loans collectively evaluated for impairment	24	489	31	209	80	41	-	874
Allowance for loan losses on loans acquired at fair value	24	573	31	966	80	41	-	1,715
Total allowance for loan losses	\$3,660	\$ 5,359	\$ 81	\$ 1,218	\$490	\$76	\$ 12	\$10,896

Allowance for Loan Losses and Loans Receivable
at June 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$14,412	\$ 7,865	\$ -	\$ 1,076	\$1,145	\$-	\$ -	\$24,498
Loans collectively evaluated for impairment	484,575	540,491	5,717	25,975	65,581	10,461	4,145	1,136,945
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	1,230	316	4,504	-	-	-	6,050
Other acquired loans individually evaluated for impairment	359	2,079	2,570	2,746	606	626	-	8,986
Loans collectively evaluated for impairment	1,301	115,163	3,248	36,387	13,481	15,526	133	185,239
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	\$500,647	\$ 666,828	\$ 11,851	\$ 70,688	\$80,813	\$26,613	\$4,278	1,361,718
Unamortized yield adjustments								(847)
Loans receivable								\$1,360,871

The following tables present key indicators of credit quality regarding the Company's loan portfolio based upon loan classification and contractual payment status at September 30, 2013 and June 30, 2013.

Credit-Rating Classification of Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Non-classified	\$493,111	\$ 662,377	\$ 3,804	\$ 25,974	\$66,182	\$10,463	\$4,315	\$1,266,226
Classified:								
Special mention	1,241	795	1,495	78	150	28	42	3,829
Substandard	14,783	8,935	-	1,359	799	95	27	25,998
Doubtful	-	297	-	-	-	-	-	297
Loss	-	-	-	-	-	-	-	-
Total classified loans	16,024	10,027	1,495	1,437	949	123	69	30,124
Total originated and purchased loans	509,135	672,404	5,299	27,411	67,131	10,586	4,384	1,296,350
Loans acquired at fair value								
Non-classified	1,276	104,110	-	27,104	11,974	15,058	122	159,644
Classified:								
Special mention	-	4,760	1,300	4,842	117	27	4	11,050
Substandard	359	4,195	3,693	11,099	601	625	2	20,574
Doubtful	-	-	-	6	-	-	-	6
Loss	-	-	-	-	-	-	-	-
Total classified loans	359	8,955	4,993	15,947	718	652	6	31,630
Total loans acquired at fair value	1,635	113,065	4,993	43,051	12,692	15,710	128	191,274
Total loans	\$510,770	\$ 785,469	\$ 10,292	\$ 70,462	\$79,823	\$26,296	\$4,512	\$1,487,624

Credit-Rating Classification of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Non-classified	\$482,462	\$ 538,544	\$ 5,717	\$ 25,630	\$65,353	\$10,339	\$4,118	\$1,132,163
Classified:								
Special mention	1,843	983	-	50	228	28	-	3,132
Substandard	14,682	8,527	-	1,371	1,145	94	27	25,846
Doubtful	-	302	-	-	-	-	-	302
Loss	-	-	-	-	-	-	-	-
Total classified loans	16,525	9,812	-	1,421	1,373	122	27	29,280
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Non-classified	1,301	109,559	820	31,062	13,419	15,450	132	171,743
Classified:								
Special mention	-	4,548	1,300	4,932	62	76	-	10,918
Substandard	359	4,365	4,014	7,554	606	626	1	17,525
Doubtful	-	-	-	89	-	-	-	89
Loss	-	-	-	-	-	-	-	-
Total classified loans	359	8,913	5,314	12,575	668	702	1	28,532
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	\$500,647	\$ 666,828	\$ 11,851	\$ 70,688	\$80,813	\$26,613	\$4,278	\$1,361,718

Contractual Payment Status of Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Current	\$496,517	\$ 666,451	\$ 5,299	\$ 25,964	\$66,834	\$10,467	\$ 4,012	\$1,275,544
Past due:								
30-59 days	883	626	-	355	289	119	48	2,320
60-89 days	1,182	179	-	74	-	-	71	1,506
90+ days	10,553	5,148	-	1,018	8	-	253	16,980
Total past due	12,618	5,953	-	1,447	297	119	372	20,806
Total originated and purchased loans	509,135	672,404	5,299	27,411	67,131	10,586	4,384	1,296,350
Loans acquired at fair value								
Current	1,276	110,486	3,742	38,811	11,971	14,768	122	181,176
Past due:								
30-59 days	-	449	-	589	334	317	1	1,690
60-89 days	-	256	-	332	152	-	3	743
90+ days	359	1,874	1,251	3,319	235	625	2	7,665
Total past due	359	2,579	1,251	4,240	721	942	6	10,098
Total loans acquired at fair value	1,635	113,065	4,993	43,051	12,692	15,710	128	191,274
Total loans	\$510,770	\$ 785,469	\$ 10,292	\$ 70,462	\$79,823	\$26,296	\$ 4,512	\$1,487,624

Contractual Payment Status of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Current	\$484,836	\$ 542,504	\$ 5,717	\$ 26,141	\$66,186	\$10,346	\$ 3,925	\$1,139,655
Past due:								
30-59 days	2,297	836	-	-	21	115	166	3,435
60-89 days	1,515	-	-	-	186	-	27	1,728
90+ days	10,339	5,016	-	910	333	-	27	16,625
Total past due	14,151	5,852	-	910	540	115	220	21,788
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Current	1,301	116,150	4,448	39,819	13,295	15,477	124	190,614
Past due:								
30-59 days	-	258	-	45	433	-	8	744
60-89 days	-	186	-	284	62	49	-	581
90+ days	359	1,878	1,686	3,489	297	626	1	8,336
Total past due	359	2,322	1,686	3,818	792	675	9	9,661
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	\$500,647	\$ 666,828	\$ 11,851	\$ 70,688	\$80,813	\$26,613	\$4,278	\$1,361,718

The following tables present information relating to the Company's nonperforming and impaired loans at September 30, 2013 and June 30, 2013. Loans reported as "90+ days past due accruing" in the table immediately below are also reported in the preceding contractual payment status table under the heading "90+ days past due".

Performance Status of Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Performing	\$497,973	\$ 664,569	\$ 5,299	\$ 26,338	\$67,058	\$10,586	\$4,131	\$1,275,954
Nonperforming:								
90+ days past due accruing	-	-	-	-	-	-	226	226
Nonaccrual	11,162	7,835	-	1,073	73	-	27	20,170
Total nonperforming	11,162	7,835	-	1,073	73	-	253	20,396
Total originated and purchased loans	509,135	672,404	5,299	27,411	67,131	10,586	4,384	1,296,350
Loans acquired at fair value								
Performing	1,276	110,688	2,556	39,549	12,457	15,085	126	181,737
Nonperforming:								
90+ days past due accruing	-	-	-	-	-	-	-	-
Nonaccrual	359	2,377	2,437	3,502	235	625	2	9,537
Total nonperforming	359	2,377	2,437	3,502	235	625	2	9,537
Total loans acquired at fair value	1,635	113,065	4,993	43,051	12,692	15,710	128	191,274
Total loans	\$510,770	\$ 785,469	\$ 10,292	\$ 70,462	\$79,823	\$26,296	\$4,512	\$1,487,624

Performance Status of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Originated and purchased loans								
Performing	\$487,671	\$ 540,585	\$ 5,717	\$ 25,975	\$66,320	\$10,461	\$4,118	\$1,140,847
Nonperforming:								
90+ days past due								
accruing	-	-	-	-	-	-	-	-
Nonaccrual	11,316	7,771	-	1,076	406	-	27	20,596
Total								
nonperforming	11,316	7,771	-	1,076	406	-	27	20,596
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Performing	1,301	116,080	3,248	39,877	13,790	15,526	132	189,954
Nonperforming:								
90+ days past due								
accruing	-	-	-	-	-	-	-	-
Nonaccrual	359	2,392	2,886	3,760	297	626	1	10,321
Total								
nonperforming	359	2,392	2,886	3,760	297	626	1	10,321
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	\$500,647	\$ 666,828	\$ 11,851	\$ 70,688	\$80,813	\$26,613	\$4,278	\$1,361,718

Impairment Status of Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	\$494,621	\$ 664,478	\$ 5,299	\$ 26,338	\$66,332	\$10,586	\$4,384	\$1,272,038
Impaired loans:								
Impaired loans with no allowance for impairment	11,912	7,538	-	1,073	682	-	-	21,205
Impaired loans with allowance for impairment:								
Unpaid principal balance	2,602	388	-	-	117	-	-	3,107
Allowance for impairment	(832)	(391)	-	-	(91)	-	-	(1,314)
Balance of impaired loans net of allowance for impairment	1,770	(3)	-	-	26	-	-	1,793
Total impaired loans, excluding allowance	14,514	7,926	-	1,073	799	-	-	24,312
Total originated and purchased loans	509,135	672,404	5,299	27,411	67,131	10,586	4,384	1,296,350
Loans acquired at fair value								
Non-impaired loans	1,276	109,655	2,556	32,255	12,151	15,085	128	173,106
Impaired loans:								
Impaired loans with no allowance for impairment	359	2,908	2,437	10,134	541	625	-	17,004
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	502	-	662	-	-	-	1,164
	-	(44)	-	(410)	-	-	-	(454)

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Allowance for impairment								
Balance of impaired loans net of allowance for impairment	-	458	-	252	-	-	-	710
Total impaired loans, excluding allowance	359	3,410	2,437	10,796	541	625	-	18,168
Total loans acquired at fair value	1,635	113,065	4,993	43,051	12,692	15,710	128	191,274
Total loans	\$510,770	\$ 785,469	\$ 10,292	\$ 70,462	\$79,823	\$26,296	\$4,512	\$1,487,624

Impairment Status of Loans Receivable
at September 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business (In Thousands)	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
Unpaid principal balance of impaired loans:								
Originated and purchased loans	\$20,785	\$ 9,097	\$ -	\$ 1,117	\$822	\$-	\$ -	\$31,821
Loans acquired at fair value	417	4,070	2,976	12,537	574	625	-	21,199
Total impaired loans	\$21,202	\$ 13,167	\$ 2,976	\$ 13,654	\$1,396	\$625	\$ -	\$53,020
For the three months ended September 30, 2013								
Average balance of impaired loans	\$14,655	\$ 11,305	\$ 2,764	\$ 8,927	\$1,579	\$664	\$ -	\$39,894
Interest earned on impaired loans	\$47	\$ 46	\$ -	\$ 183	\$16	\$-	\$ -	\$292
For the three months ended September 30, 2012								
Average balance of impaired loans	\$16,359	\$ 12,332	\$ 1,840	\$ 9,000	\$1,790	\$48	\$ -	\$41,369
Interest earned on impaired loans	\$40	\$ 58	\$ -	\$ 91	\$13	\$3	\$ -	\$205

Impairment Status of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	\$484,575	\$ 540,491	\$ 5,717	\$ 25,975	\$65,581	\$10,461	\$4,145	\$1,136,945
Impaired loans:								
Impaired loans with no allowance for impairment	11,758	7,470	-	1,076	1,026	-	-	21,330
Impaired loans with allowance for impairment:								
Unpaid principal balance	2,654	395	-	-	119	-	-	3,168
Allowance for impairment	(697)	(430)	-	-	(110)	-	-	(1,237)
Balance of impaired loans net of allowance for impairment	1,957	(35)	-	-	9	-	-	1,931
Total impaired loans, excluding allowance	14,412	7,865	-	1,076	1,145	-	-	24,498
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Non-impaired loans	1,301	115,163	3,248	36,387	13,481	15,526	133	185,239
Impaired loans:								
Impaired loans with no allowance for impairment	359	2,795	2,886	6,251	606	626	-	13,523
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	514	-	999	-	-	-	1,513
	-	(84)	-	(757)	-	-	-	(841)

Allowance for impairment								
Balance of impaired loans net of allowance for impairment	-	430	-	242	-	-	-	672
Total impaired loans, excluding allowance	359	3,309	2,886	7,250	606	626	-	15,036
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	\$500,647	\$ 666,828	\$ 11,851	\$ 70,688	\$80,813	\$26,613	\$4,278	\$1,361,718

Impairment Status of Loans Receivable
at June 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Unpaid principal balance of impaired loans:								
Originated and purchased loans	\$ 20,682	\$ 8,956	\$ -	\$ 1,120	\$1,169	\$-	\$ -	\$31,927
Loans acquired at fair value	417	4,077	3,419	10,168	614	626	-	19,321
Total impaired loans	\$ 21,099	\$ 13,033	\$ 3,419	\$ 11,288	\$1,783	\$626	\$ -	\$51,248

Troubled Debt Restructurings (“TDRs”). A modification to the terms of a loan is generally considered a TDR if the Bank grants a concession to the borrower that it would not otherwise consider for economic or legal reasons related to the debtor’s financial difficulties. In granting the concession, the Bank’s general objective is to make the best of a difficult situation by obtaining more cash or other value from the borrower or otherwise increase the probability of repayment.

A TDR may include, but is not necessarily limited to, the modification of loan terms such as a temporary or permanent reduction of the loan’s stated interest rate, extension of the maturity date and/or reduction or deferral of amounts owed under the terms of the loan agreement. In measuring the impairment associated with restructured loans that qualify as TDRs, the Company compares the cash flows under the loan’s existing terms with those that are expected to be received in accordance with its modified terms. The difference between the comparative cash flows is discounted at the loan’s effective interest rate prior to modification to measure the associated impairment. The impairment is charged off directly against the allowance for loan loss at the time of restructuring resulting in a reduction in carrying value of the modified loan that is accreted into interest income as a yield adjustment over the remaining term of the modified cash flows.

All restructured loans that qualify as TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of the borrower’s adherence to a TDR’s modified repayment terms during which time TDRs continue to be adversely classified and reported as impaired. TDRs may be returned to accrual status if (1) the borrower has paid timely P&I payments in accordance with the terms of the restructured loan agreement for no less than six consecutive months after restructuring, and (2) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the restructured loan agreement at which time the loan may also be returned to a non-adverse classification while retaining its impaired status.

The following table presents information regarding the restructuring of the Company's troubled debts during the three months ended September 30, 2013 and September 30, 2012 and any defaults during those periods of TDRs that were restructured within 12 months of the date of default.

Troubled Debt Restructurings of Loans Receivable
at September 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans (in Thousands)	Home Equity Lines of Credit	Other Consumer	Total
Troubled debt restructuring activity for the three months ended September 30, 2013								
Originated and purchased loans								
Number of loans	-	-	-	-	-	-	-	-
Pre-modification outstanding								
recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Post-modification outstanding								
recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Pre-modification outstanding								
recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Post-modification outstanding								
recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-

Troubled debt
restructuring defaults

Originated and
purchased loans

Number of loans	1	-	-	-	-	-	-	1
Outstanding recorded investment	\$54	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$54

Loans acquired at fair
value

Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

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Troubled Debt Restructurings of Loans Receivable
at September 30, 2012

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Troubled debt restructuring activity for the three months ended September 30, 2012								
Originated and purchased loans								
Number of loans	-	-	-	-	1	-	-	1
Pre-modification outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$99	\$-	\$ -	\$99
Post-modification outstanding recorded investment	-	-	-	-	94	-	-	94
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	7	-	-	7
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Pre-modification outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Post-modification outstanding recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-
Troubled debt restructuring defaults								

Originated and
purchased loans

Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

Loans acquired at fair
value

Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

The manner in which the terms of a loan are modified through a troubled debt restructuring generally includes one or more of the following changes to the loan's repayment terms:

- Interest Rate Reduction: Temporary or permanent reduction of the interest rate charged against the outstanding balance of the loan.
- Capitalization of Prior Past Dues: Capitalization of prior amounts due to the outstanding balance of the loan.
- Extension of Maturity or Balloon Date: Extending the term of the loan past its original balloon or maturity date.
- Deferral of Principal Payments: Temporary deferral of the principal portion of a loan payment.
- Payment Recalculation and Re-amortization: Recalculation of the recurring payment obligation and resulting loan amortization/repayment schedule based on the loan's modified terms.

11. BORROWINGS

Fixed rate advances from the FHLB of New York mature as follows:

	September 30, 2013			June 30, 2013		
			Weighted Average Interest Rate			Weighted Average Interest Rate
	Amount			Amount		
Maturing in years ending June 30:						
2014	\$235,000	0.39	%	\$105,000	0.39	%
2015	-	-		-	-	
2018	-	-		-	-	
2021	832	4.94		854	4.94	
2023	145,000	3.04		145,000	3.04	
	380,832	1.41	%	250,854	1.94	%
Fair value adjustments	73			77		
	\$380,905			\$250,931		

At September 30, 2013, \$235.0 million in advances are due within one year and comprise \$175.0 million of 90 day advances coupled with \$60.0 million of overnight borrowings. The remaining \$145.8 million in advances are due after one year of which \$145.0 million are callable in April 2018.

At September 30, 2013, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately \$445.5 million and \$214.7 million, respectively. At June 30, 2013, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately \$433.2 million and \$222.7 million, respectively.

Borrowings at September 30, 2013 and June 30, 2013 also included overnight borrowings in the form of depositor sweep accounts totaling \$36.2 million and \$36.8 million, respectively. Depositor sweep accounts are short term borrowings representing funds that are withdrawn from a customer's noninterest-

bearing deposit account and invested in an uninsured overnight investment account that is collateralized by specified investment securities owned by the Bank.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has entered into interest rate derivative agreements to manage the interest rate exposure relating to certain wholesale funding positions drawn during the period. Such sources of wholesale funding included floating-rate brokered money market deposits indexed to one-month LIBOR as well as 90 day fixed-rate FHLB advances that are forecasted to be periodically redrawn at maturity for the same 90 day term as the original advance. All the Company's derivative agreements have been designated as cash flow hedges with changes in their fair value recorded as an adjustment through other comprehensive income on an after-tax basis.

The effects of derivative instruments on the Consolidated Financial Statements for September 30, 2013 and June 30, 2013 are as follows:

	Notional/ Contract Amount	Fair Value (Dollars in Thousands)	Balance Sheet Location	Expiration Date
Derivatives designated as hedging instruments				
At September 30, 2013:				
Interest rate swaps:				
Effective July 1, 2013	\$ 165,000	\$ 646	Other assets	July 1, 2018
Effective June 5, 2015	60,000	862	Other assets	June 5, 2020
Effective August 19, 2013	75,000	(1,057)	Other assets	August 20, 2018
Interest rate caps:				
Effective June 5, 2013	40,000	1,248	Other assets	June 5, 2018
Effective July 1, 2013	35,000	1,119	Other assets	July 1, 2018
Total	\$ 375,000	\$ 2,818		
At June 30, 2013:				
Interest rate swaps:				
Effective July 1, 2013	\$ 165,000	\$ 1,617	Other assets	July 1, 2018
Effective June 5, 2015	60,000	1,220	Other assets	June 5, 2020
Interest rate caps:				
Effective June 5, 2013	40,000	1,485	Other assets	June 5, 2018
Effective July 1, 2013	35,000	1,323	Other assets	July 1, 2018
Total	\$ 300,000	\$ 5,645		

	Amount of Gain (Loss) Recognized in OCI on Derivatives, net of tax (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
	(Dollars in Thousands)		
Derivatives in cash flow hedges			
For the three months ended September 30, 2013:			
Interest rate swaps:			
Effective July 1, 2013	\$ (574)	Not Applicable	\$ -
Effective June 5, 2015	(212)	Not Applicable	-
Effective August 19, 2013	(625)	Not Applicable	-
Interest rate caps:			
Effective June 5, 2013	(140)	Not Applicable	-
Effective July 1, 2013	(121)	Not Applicable	-
Total	\$ (1,672)		\$ -

There were no derivatives held by the Company at and for the three months ended September 30, 2012.

The Company has in place an enforceable master netting arrangement with every counterparty. All master netting arrangements include rights to offset associated with the Company's recognized derivative assets, derivative liabilities, and cash collateral received and pledged. Accordingly, the Company, where appropriate, offsets all derivative asset and liability positions with the cash collateral received and pledged. At September 30, 2013 and June 30, 2013, the Company's derivatives were in net asset positions totaling \$2,818,000 and \$5,645,000, respectively, which were included in the balance of other assets as of those dates. At September 30, 2013 and June 30, 2013, the gross asset positions were \$3,875,000 and \$5,645,000 and gross liability positions were \$1,057,000 and \$0, respectively. Financial collateral required under the enforceable master netting arrangement in the amount of \$2,920,000 and \$5,500,000 at September 30, 2013 and June 30, 2013, respectively, were not included as offsetting amounts.

13. BENEFIT PLANS – COMPONENTS OF NET PERIODIC EXPENSE

The following table sets forth the aggregate net periodic benefit expense for the Bank's Benefit Equalization Plan, Postretirement Welfare Plan and Directors' Consultation and Retirement Plan:

	Three Months Ended September 30,	
	2013	2012
	(In Thousands)	
Service cost	\$ 50	\$ 58
Interest cost	84	77
Amortization of unrecognized past service liability	12	12

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Amortization of unrecognized net actuarial (gain) loss	(1)	13
Net periodic benefit expense	\$	145	\$ 160

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The guidance on fair value measurement establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In addition, the guidance requires the Company to disclose the fair value for assets and liabilities on both a recurring and non-recurring basis.

The assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in	Significant	Significant	
	Active Markets	Other	Unobservable	
	for Identical	Observable	Inputs	
	Assets (Level 1)	Inputs	Inputs	Balance
		(Level 2)	(Level 3)	
		(In Thousands)		
At September 30, 2013:				
Debt securities available for sale:				
U.S. agency securities	\$ -	\$ 4,903	\$ -	\$ 4,903
Obligations of state and political subdivisions	-	25,259	-	25,259
Asset-backed securities	-	24,257	-	24,257
Collateralized loan obligations	-	79,931	-	79,931
Corporate bonds	-	158,750	-	158,750
Trust preferred securities	-	6,444	1,000	7,444
Total debt securities	-	299,544	1,000	300,544
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations	-	60,985	-	60,985
Residential pass-through securities	-	601,332	-	601,332
Commercial pass-through securities	-	89,899	-	89,899
Total mortgage-backed securities	-	752,216	-	752,216
Total securities available for sale	\$ -	\$ 1,051,760	\$ 1,000	\$ 1,052,760
Derivative instruments:				

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Interest rate swaps	\$	-	\$	451	\$	-	\$	451
Interest rate caps		-		2,367		-		2,367
Total derivatives	\$	-	\$	2,818	\$	-	\$	2,818

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	Fair Value Measurements Using				
	Quoted Prices in	Other	Significant		
	Active Markets	Observable	Unobservable		
	for Identical	Inputs	Inputs		
	Assets (Level 1)	(Level 2)	(Level 3)		Balance
					(In Thousands)
At June 30, 2013:					
Debt securities available for sale:					
U.S. agency securities	\$ -	\$ 5,015	\$ -	\$	5,015
Obligations of state and political subdivisions	-	25,307	-		25,307
Asset-backed securities	-	24,798	-		24,798
Collateralized loan obligations	-	78,486	-		78,486
Corporate bonds	-	159,192	-		159,192
Trust preferred securities	-	6,324	1,000		7,324
Total debt securities	-	299,122	1,000		300,122
Mortgage-backed securities available for sale:					
Collateralized mortgage obligations	-	62,482	-		62,482
Residential pass-through securities	-	628,154	-		628,154
Commercial pass-through securities	-	90,016	-		90,016
Total mortgage-backed securities	-	780,652	-		780,652
Total securities available for sale	\$ -	\$ 1,079,774	\$ 1,000	\$	1,080,774
Derivative instruments:					
Interest rate swaps	\$ -	\$ 2,837	\$ -	\$	2,837
Interest rate caps	-	2,808	-		2,808
Total derivatives	\$ -	\$ 5,645	\$ -	\$	5,645

The fair values of securities available for sale (carried at fair value) or held to maturity (carried at amortized cost) are primarily determined by obtaining matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Company holds a trust preferred security with a par value of \$1.0 million, a de-facto obligation of Mercantil Commercebank Florida Bancorp, Inc., whose fair value has been determined by using Level 3 inputs. It is a part of a \$40.0 million private placement with a coupon of 8.90% issued in

1998 and maturing in 2028. Generally management has been unable to obtain a market quote due to a lack of trading activity for this security. Consequently, the security's fair value as reported at September 30, 2013 and June 30, 2013 is based upon the present value of its expected future cash flows assuming the security continues to meet all its payment obligations and utilizing a discount rate based upon the security's contractual interest rate.

The Company has contracted with a third party vendor to provide periodic valuations for its interest rate derivatives to determine the fair value of its interest rate caps and swaps. The vendor utilizes standard valuation methodologies applicable to interest rate derivatives such as discounted cash flow analysis and extensions of the Black-Scholes model. Such valuations are based upon readily observable market data and are therefore considered Level 2 valuations by the Company.

For the three months ended September 30, 2013, there were no purchases, sales, issuances, or settlements of assets or liabilities whose fair values are determined based upon Level 3 inputs on a recurring basis. For that same period, there were no transfers of assets or liabilities within the fair valuation measurement hierarchy between Level 1 and Level 2 inputs.

The assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements Using			Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In Thousands)			
At September 30, 2013				
Impaired loans	\$ -	\$ -	\$ 14,271	\$ 14,271
At June 30, 2013				
Impaired loans	\$ -	\$ -	\$ 14,603	\$ 14,603
Real estate owned	-	-	229	229

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			Range
	Fair Value Estimate	Valuation Techniques	Unobservable Input	
At September 30, 2013	(In Thousands)			
Impaired loans	\$ 14,271	Market valuation of underlying collateral (1)	Direct disposal costs (3)	6% - 10 %
At June 30, 2013				
Impaired loans	\$ 14,603	Market valuation of	Direct disposal costs (3)	6% - 10 %

		underlying collateral			
		(1)			
		Market valuation	Direct disposal	6% -	
Real estate owned	\$ 229	property (2)	costs (3)	10	%

(1) The fair value basis of impaired loans is generally determined based on an independent appraisal of the market value of a loan's underlying collateral.

(2) The fair value basis of real estate owned is generally determined based upon the lower of an independent appraisal of the property's market value or the applicable listing price or contracted sales price.

(3) The fair value basis of impaired loans and real estate owned is adjusted to reflect management estimates of disposal costs including, but not necessarily limited to, real estate brokerage commissions and title transfer fees, with such cost estimates generally ranging from 6% to 10% of collateral or property market value.

An impaired loan is evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Market value is measured based on the value of the collateral securing the loan and is classified at a Level 3 in the fair value hierarchy. Once a loan is identified as individually impaired, management measures impairment in accordance with the FASB's guidance on accounting by creditors for impairment of a loan with the fair value estimated using the market value of the collateral reduced by estimated disposal costs. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

At September 30, 2013, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling \$16.1 million and valuation allowances of \$1.8 million reflecting fair values of \$14.3 million. By comparison, at June 30, 2013, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling \$16.7 million and valuation allowances of \$2.1 million reflecting fair values of \$14.6 million.

Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. For the year-to-date period ended September 30, 2013, there were no real estate properties whose carrying values were written down utilizing Level 3 inputs. By comparison, real estate owned whose carrying value was written down utilizing Level 3 inputs during the year ended June 30, 2013 comprised one property with a fair value totaling \$229,000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at September 30, 2013 and June 30, 2013:

Cash and Cash Equivalents, Interest Receivable and Interest Payable. The carrying amounts for cash and cash equivalents, interest receivable and interest payable approximate fair value because they mature in three months or less.

Securities. See the discussion presented on Page 58 concerning assets measured at fair value on a recurring basis.

Loans Receivable. Except for certain impaired loans as previously discussed, the fair value of loans receivable is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans.

FHLB of New York Stock. The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Deposits. The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

Advances from FHLB. Fair value is estimated using rates currently offered for advances of similar remaining maturities.

Interest Rate Derivatives. See the discussion presented on Page 58 concerning assets measured at fair value on a recurring basis.

Commitments. The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented on Page 82.

The carrying amounts and estimated fair values of financial instruments are as follows:

Carrying Amount and Fair Value Measurements at September 30, 2013					
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 118,186	\$ 118,186	\$ 118,186	\$ -	\$ -
Debt securities available for sale	300,544	300,544	-	299,544	1,000
Debt securities held to maturity	210,943	204,185	-	204,185	-
Loans receivable	1,474,238	1,476,889	-	-	1,476,889
Mortgage-backed securities available for sale	752,216	752,216	-	752,216	-
Mortgage-backed securities held to maturity	100,674	96,078	-	96,078	-
FHLB Stock	21,515	21,515	-	-	21,515
Interest receivable	8,508	8,508	8,508	-	-
Financial liabilities:					
Deposits (A)	2,331,269	2,299,855	1,342,646	-	957,209
Borrowings	417,118	423,724	-	-	423,724
Interest payable on borrowings	987	987	987	-	-
Derivative instruments:					
Interest rate swaps	451	451	-	451	-

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Interest rate caps	2,367	2,367	-	2,367	-
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(A) Includes accrued interest payable on deposits of \$68,000 at September 30, 2013.

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Carrying Amount and Fair Value Measurements at June 30, 2013					
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 127,034	\$ 127,034	\$ 127,034	\$-	\$ -
Debt securities available for sale	300,122	300,122	-	299,122	1,000
Debt securities held to maturity	210,015	202,328	-	202,328	-
Loans receivable	1,349,975	1,359,799	-	-	1,359,799
Mortgage-backed securities available for sale	780,652	780,652	-	780,652	-
Mortgage-backed securities held to maturity	101,114	96,447	-	96,447	-
FHLB Stock	15,666	15,666	-	-	15,666
Interest receivable	8,028	8,028	8,028	-	-
Financial liabilities:					
Deposits (A)	2,370,508	2,376,290	1,389,044	-	987,246
Borrowings					