Kearny Financial Corp.
Form 10-Q
May 12, 2014

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 March 31, 2014

OR

o 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 o

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 o

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 9, 2014.

$0.10 par value common stock - 66,189,578 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)

Assets	March 31, 2014 (Unaudited)	June 30, 2013
Cash and amounts due from depository institutions	$12,558	$13,102
Interest-bearing deposits in other banks	122,874	113,932
Cash and Cash Equivalents	135,432	127,034
Debt securities available for sale (amortized cost $358,407 and $305,283)	353,917	300,122
Debt securities held to maturity (fair value $207,335 and $202,328)	212,391	210,015
Loans receivable, including unamortized yield adjustments of $(1,558) and $(847)	1,651,287	1,360,871
Less allowance for loan losses	(12,088)	(10,896)
Net Loans Receivable	1,639,199	1,349,975
Mortgage-backed securities available for sale (amortized cost $646,807 and $782,866)	642,508	780,652
Mortgage-backed securities held to maturity (fair value $95,080 and $96,447)	99,805	101,114
Premises and equipment	38,141	36,994
Federal Home Loan Bank of New York (“FHLB”) stock	24,438	15,666
Accrued interest receivable	8,915	8,028
Goodwill	108,591	108,591
Bank owned life insurance	88,162	86,084
Deferred income tax assets, net	11,327	9,782
Other assets	7,905	11,303
Total Assets	$3,370,731	$3,145,360
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$202,572	$190,964
Interest-bearing	2,194,140	2,179,544
Total Deposits	2,396,712	2,370,508
Borrowings	481,206	287,695
Advance payments by borrowers for taxes	8,809	7,840
Other liabilities	12,527	11,610
Total Liabilities	2,899,254	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; 66,150,682 and 66,500,740 shares outstanding, respectively	7,274	7,274
Paid-in capital	216,049	215,722
Retained earnings	333,526	326,167
Unearned Employee Stock Ownership Plan shares; 424,297 shares and 533,400 shares, respectively	(4,243)	(5,334)
Treasury stock, at cost; 6,586,818 shares and 6,236,760 shares, respectively	(75,588)	(71,983)
Accumulated other comprehensive loss	(5,541)	(4,139)
Total Stockholders' Equity	471,477	467,707
Total Liabilities and Stockholders' Equity	$3,370,731	$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 March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Interest Income				
Loans	$16,892	$15,445	$49,217	$46,386
Mortgage-backed securities	4,987	5,532	16,046	18,697
Securities:				
Taxable	1,308	436	3,807	936
Tax-exempt	460	26	1,374	38
Other interest-earning assets	309	205	745	595
Total Interest Income	23,956	21,644	71,189	66,652
Interest Expense				
Deposits	3,599	3,400	10,825	11,450
Borrowings	1,876	1,898	5,212	5,987
Total Interest Expense	5,475	5,298	16,037	17,437
Net Interest Income	18,481	16,346	55,152	49,215
Provision for Loan Losses	880	1,407	2,607	3,139
Net Interest Income after Provision for Loan Losses	17,601	14,939	52,545	46,076
Non-Interest Income				
Fees and service charges	513	605	1,834	1,851
Gain on sale of loans	27	545	80	545
Gain on sale of securities	830	9,075	1,056	10,172
Loss on sale and write down of real estate owned	(71)	(8)	(70)	(541)
Income from bank owned life insurance	668	485	2,077	1,261
Electronic banking fees and charges	237	261	877	835
Miscellaneous	181	107	321	432
Total Non-Interest Income	2,385	11,070	6,175	14,555
Non-Interest Expenses				
Salaries and employee benefits	9,098	8,977	26,774	26,580
Net occupancy expense of premises	2,106	1,777	5,375	5,030
Equipment and systems	3,168	1,879	7,097	5,752
Advertising and marketing	332	224	891	785
Federal deposit insurance premium	582	535	1,712	1,636
Directors' compensation	173	171	517	513
Merger-related expenses	190	-	190	-
Debt extinguishment expense	-	8,688	-	8,688
Miscellaneous	1,866	1,691	5,798	5,422
Total Non-Interest Expenses	$17,515	$23,942	$48,354	$54,406

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Income Before Income Taxes	$2,471	$2,067	$10,366	$6,225
Income Taxes	685	323	3,007	1,644
Net Income	$1,786	$1,744	$7,359	$4,581
Net Income per Common Share (EPS):				
Basic	$0.03	$0.03	$0.11	$0.07
Diluted	$0.03	$0.03	$0.11	$0.07
Weighted Average Number of Common Shares Outstanding:				
Basic	65,684	66,141	65,797	66,195
Diluted	65,782	66,141	65,829	66,195
Dividends Declared Per Common Share	$-	$-	$-	$-

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net Income	$ 1,786	$ 1,744	$ 7,359	$ 4,581
Other Comprehensive Income (Loss):				
Net realized gain on securities available for sale, net of income tax expense of 2014 $340, $433 and 2013 $3,721, $4,173	(490)	(5,355)	(623)	(6,006)
Net unrealized gain (loss) on securities available for sale, net of deferred income tax expense (benefit) of: 2014 $3,231, $(571) and 2013 $(2,405), $(2,776)	6,263	(3,688)	213	(4,195)
Net unrealized loss on derivatives, net of deferred income tax benefit of: 2014 $(930), $(1,026) and 2013 $ -, $ -	(1,347)	-	(1,487)	-
Benefit plans, net of deferred income tax expense (benefit) of: 2014 $3, $340 and 2013 $10, $(454)	7	15	495	(656)
Total Other Comprehensive Income (Loss)	4,433	(9,028)	(1,402)	(10,857)
Total Comprehensive Income (Loss)	$ 6,219	$ (7,284)	$ 5,957	$ (6,276)

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2013
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock				Unearned		Accumulated Other	
	Shares	Amount	Paid-In Capital	Retained Earnings	ESOP Shares	Treasury Stock	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	-	-	-	4,581	-	-	-	4,581
Other comprehensive loss, net of income tax	-	-	-	-	-	-	(10,857)	(10,857)
ESOP shares committed to be released (108 shares)	-	-	(26)	-	1,091	-	-	1,065
Dividends contributed for payment of ESOP loan	-	-	(2)	-	-	-	-	(2)
Stock option expense	-	-	31	-	-	-	-	31
Treasury stock purchases	(288)	-	-	-	-	(2,833)	-	(2,833)
Restricted stock plan shares earned (12 shares)	-	-	126	-	-	-	-	126
Balance - March 31, 2013	66,648	$7,274	$215,668	$324,242	$(5,698)	$(70,497)	$ 12,739	$483,728

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2014
(In Thousands, Except Per Share Data, 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	-	-	-	7,359	-	-	-	7,359
Other comprehensive income, net of income tax	-	-	-	-	-	-	(1,402)	(1,402)
ESOP shares committed to be released (108 shares)	-	-	126	-	1,091	-	-	1,217
Stock option expense	-	-	30	-	-	-	-	30
Treasury stock purchases	(386)	-	-	-	-	(4,020)	-	(4,020)
Treasury stock reissued	36	-	45	-	-	415	-	460
Restricted stock plan shares earned (12 shares)	-	-	126	-	-	-	-	126
Balance - March 31, 2014	66,151	$ 7,274	$ 216,049	$ 333,526	$ (4,243)	$ (75,588)	$ (5,541)	$ 471,477

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013
Cash Flows from Operating Activities:		
Net income	$7,359	$4,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,958	1,964
Net amortization of premiums, discounts and loan fees and costs	2,273	7,887
Deferred income taxes	146	241
Amortization of intangible assets	93	105
Amortization of benefit plans' unrecognized net loss	32	75
Provision for loan losses	2,607	3,139
Loss on write-down and sales of real estate owned	70	541
Realized gain on sale of loans	(80)	(545)
Proceeds from sale of loans	817	5,193
Realized loss on sale of debt securities available for sale	1,294	-
Realized gain on sale of mortgage-backed securities available for sale	(2,350)	(10,178)
Realized loss on sale of mortgage-backed securities held to maturity	-	6
Realized loss on debt extinguishment	-	8,688
Realized gain on disposition of premises and equipment	-	(100)
Increase in cash surrender value of bank owned life insurance	(2,077)	(1,261)
ESOP, stock option plan and restricted stock plan expenses	1,373	1,222
(Increase) decrease in accrued interest receivable	(887)	846
Decrease in other assets	345	1,313
Increase (decrease) in accrued interest payable	71	(260)
Increase (decrease) in other liabilities	1,760	(276)
Net Cash Provided by Operating Activities	14,804	23,181
Cash Flows from Investing Activities:		
Purchase of debt securities available for sale	(108,850)	(97,788)
Proceeds from sale of debt securities available for sale	54,075	-
Proceeds from repayments of debt securities available for sale	497	444
Purchase of debt securities held to maturity	(4,315)	(144,784)
Proceeds from calls and maturities of debt securities held to maturity	1,468	32,023
Proceeds from repayments of debt securities held to maturity	341	518
Purchase of loans	(107,969)	(9,655)
Net increase in loans receivable	(185,209)	(56,119)
Proceeds from sale of real estate owned	1,219	2,389
Purchases of mortgage-backed securities available for sale	(45,076)	(262,266)
Principal repayments on mortgage-backed securities available for sale	93,195	284,197
Principal repayments on mortgage-backed securities held to maturity	1,247	198
Proceeds from sale of mortgage-backed securities held to maturity	-	15
Proceeds from sale of mortgage-backed securities available for sale	87,728	409,840
Purchase of FHLB stock	(24,120)	(1,170)

Redemption of FHLB stock	15,348	4,098
Purchase of bank owned life insurance	-	(35,503)
Proceeds from cash settlement of premises and equipment	-	200
Additions to premises and equipment	(3,105)	(814)
Net Cash (Used in) Provided by Investing Activities	$(223,526)	$125,823

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

	Nine Months Ended March 31,	
	2014	2013
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	$26,187	$(18,604)
Repayment of term FHLB advances	(500,066)	(73,752)
Proceeds from term FHLB advances	700,000	-
Net change in overnight borrowings	(5,000)	-
Decrease in other short-term borrowings	(1,410)	(1,296)
Increase in advance payments by borrowers for taxes	969	1,798
Purchase of common stock of Kearny Financial Corp. for treasury	(4,020)	(2,833)
Issuance of common stock of Kearny Financial Corp. from treasury	460	-
Dividends contributed for payment of ESOP loan	-	(2)
Net Cash Provided by (Used in) Financing Activities	217,120	(94,689)
Net Increase in Cash and Cash Equivalents	8,398	54,315
Cash and Cash Equivalents – Beginning	127,034	155,584
Cash and Cash Equivalents – Ending	$135,432	$209,899
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$5,522	$1,019
Interest	$15,966	$17,697
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	$848	$2,375

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-and nine-month periods ended March 31, 2014, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statement of financial condition for June 30, 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 (loss), 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 March 31, 2014			Nine Months Ended March 31, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)			(In Thousands, Except Per Share Data)		
Net income	$1,786			$7,359		
Basic earnings per share, income available to common stockholders	$1,786	65,684	$0.03	$7,359	65,797	$0.11
Effect of dilutive securities:						
Stock options	-	98		-	32	
	$1,786	65,782	$0.03	$7,359	65,829	$0.11

	Three Months Ended March 31, 2013			Nine Months Ended March 31, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)			(In Thousands, Except Per Share Data)		
Net income	$1,744			$4,581		
Basic earnings per share, income available to common stockholders	$1,744	66,141	$0.03	$4,581	66,195	$0.07
Effect of dilutive securities:						
Stock options	-	-		-	-	
	$1,744	66,141	$0.03	$4,581	65,853	$0.07

During the three and nine months ended March 31, 2014, the average number of options which were considered anti-dilutive totaled approximately 1,915,850 and 1,964,126, respectively. During the three and nine months ended March 31, 2013, the average number of options which were considered anti-dilutive totaled approximately 3,193,000 and 3,193,000, respectively.

4. RECENT MERGER-RELATED EVENTS

On January 30, 2014, the Company announced the execution of a merger agreement with Atlas Bank ("Atlas") pursuant to which Atlas will merge with and into the Bank. Atlas is headquartered in Brooklyn, New York and had approximately $116.2 million in total assets at March 31, 2014. The acquisition will add Atlas's branch offices located in Brooklyn and Staten Island, New York to Kearny's 41 branch network located throughout northern and central New Jersey. Atlas's branch offices are expected to operate under the name, "Atlas Bank, a division of Kearny Federal Savings Bank," for a period of at least one year following the merger.

Under the terms of the merger agreement, depositors of Atlas will become depositors of the Bank and will have the same rights and privileges in Kearny MHC, the mutual holding company parent of the Company, as if their accounts had been established at the Bank on the date they were originally established at Atlas. As part of the transaction, the Company will issue additional shares of its common stock to Kearny MHC in an amount equal to the fair value of Atlas as determined by an independent appraiser. These shares are expected to be issued immediately prior to the completion of the merger.

The transaction is expected to close during the fourth fiscal quarter ending June 30, 2014 or the subsequent quarter ending September 30, 2014 subject to certain conditions, including approval by Atlas's depositors and customary regulatory approvals.

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.

In July 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.

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

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. The Company completed that share repurchase plan during the quarter ended December 31, 2013 at a total cost of approximately $8,088,000 and at an average cost per share of $10.07.

On December 2, 2013, the Company announced that the Board of Directors authorized a subsequent stock repurchase plan to acquire up to 762,640 shares, or 5% of the Company's outstanding stock held by persons other than Kearny MHC. Through March 31, 2014, the Company has repurchased a total of 54,600 shares in accordance with this repurchase plan at a total cost of approximately $586,000 and at an average cost per share of $10.73.

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 March 31, 2014 and June 30, 2013 and stratification by contractual maturity of debt securities available for sale at March 31, 2014 are presented below:

	At March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale:				
Debt securities:				
U.S. agency securities	$4,419	$32	$3	$4,448
Obligations of state and political subdivisions	27,543	-	1,411	26,132
Asset-backed securities	87,465	553	1,195	86,823
Collateralized loan obligations	70,009	2	313	69,698
Corporate bonds	160,086	227	1,037	159,276
Trust preferred securities	8,885	-	1,345	7,540
Total debt securities	358,407	814	5,304	353,917
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	31,801	-	616	31,185
Federal National Mortgage Association	52,172	13	1,593	50,592
Total collateralized mortgage obligations	83,973	13	2,209	81,777
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	4,985	284	-	5,269
Federal Home Loan Mortgage Corporation	215,951	3,583	3,753	215,781
Federal National Mortgage Association	257,041	6,236	4,414	258,863
Total residential pass-through securities	477,977	10,103	8,167	479,913
Commercial pass-through securities:				
Federal Home Loan Mortgage Corporation	79	1	-	80
Federal National Mortgage Association	84,778	2	4,042	80,738
Total commercial pass-through securities	84,857	3	4,042	80,818
Total mortgage-backed securities	646,807	10,119	14,418	642,508
Total securities available for sale	$1,005,214	$10,933	$19,722	$996,425

	At March 31, 2014	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	$ -	$ -
Due after one year through five years	20,065	20,052
Due after five years through ten years	167,121	166,087
Due after ten years	171,221	167,778
Total	$ 358,407	$ 353,917

	At June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale:				
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:				
Government National Mortgage Association	5,889	444	-	6,333
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	89,898
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

During the nine months ended March 31, 2014, proceeds from sales of securities available for sale totaled $141.8 million and resulted in gross gains of $2,891,000 and gross losses of $1,835,000. Proceeds from sales of securities available for sale during the nine months ended March 31, 2013, totaled $409.8 million and resulted in gross gains of $10,314,000 and gross losses of $135,000.

At March 31, 2014 and June 30, 2013, securities available for sale with carrying values of approximately $55.5 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 $6.6 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 March 31, 2014 and June 30, 2013 and stratification by contractual maturity of debt securities held to maturity at March 31, 2014 are presented below:

	At March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities held to maturity:				
Debt securities:				
U.S. agency securities	$144,410	$8	$2,546	$141,872
Obligations of state and political subdivisions	67,981	13	2,531	65,463
Total debt securities	212,391	21	5,077	207,335
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	20	2	-	22
Federal National Mortgage Association	277	29	-	306
Non-agency securities	91	-	2	89
Total collateralized mortgage obligations	388	31	2	417
Mortgage pass-through securities:				
Residential pass-through securities:				
Federal Home Loan Mortgage Corporation	83	3	-	86
Federal National Mortgage Association	196	7	-	203
Total residential pass-through securities	279	10	-	289
Commercial pass-through securities:				
Federal National Mortgage Association	99,138	-	4,764	94,374
Total commercial pass-through securities	99,138	-	4,764	94,374
Total mortgage-backed securities	99,805	41	4,766	95,080
Total securities held to maturity	$312,196	$62	$9,843	$302,415

At March 31, 2014	
Amortized Cost	Fair Value
(In Thousands)	

Debt securities held to maturity:

Due in one year or less	$ 4,923	$ 4,937
Due after one year through five years	146,202	143,651
Due after five years through ten years	33,043	31,892
Due after ten years	28,223	26,855
Total	$ 212,391	$ 207,335

	At June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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 nine months ended March 31, 2014. During the nine months ended March 31, 2013, proceeds from sales of held to maturity securities totaled $15,000 resulting in losses of $6,000. The proceeds and losses were fully attributable to the sale of non-investment grade, non-agency collateralized mortgage obligations during the earlier period. The securities sold were originally acquired as investment grade securities upon the in-kind redemption of the Company’s interest in the AMF Ultra Short Mortgage Fund during the first quarter of fiscal 2009. The rating of the securities subsequently declined below investment grade resulting in their eligibility for sale from the held-to-maturity portfolio without tainting the status of the remaining securities within the portfolio.

At March 31, 2014 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 March 31, 2014 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 at March 31, 2014 and June 30, 2013. 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 March 31, 2014:						
U.S. agency securities	$ 933	$ 3	$ -	$ -	$ 933	$ 3
Obligations of state and political subdivisions	19,177	894	6,955	517	26,132	1,411
Asset-backed securities	53,210	1,195	-	-	53,210	1,195
Collateralized loan obligations	44,711	313	-	-	44,711	313
Corporate bonds	74,471	611	39,608	426	114,079	1,037
Trust preferred securities	-	-	6,540	1,345	6,540	1,345
Collateralized mortgage obligations	80,476	2,209	-	-	80,476	2,209
Residential pass-through securities	205,127	7,108	12,256	1,059	217,383	8,167
Commercial pass-through securities	47,315	1,849	33,263	2,193	80,578	4,042
Total	$ 525,420	$ 14,182	$ 98,622	$ 5,540	$ 624,042	$ 19,722
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
Total	$ 616,966	$ 20,456	$ 6,324	$ 1,554	$ 623,290	$ 22,010

The number of available for sale securities with unrealized losses at March 31, 2014 totaled 161 and included four U.S. agency securities, 70 municipal obligations, five asset-backed securities, six collateralized loan obligations, 11 corporate bonds, four trust preferred securities, six collateralized mortgage obligations, 40 residential pass-through securities and 15 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 March 31, 2014:						
U.S. agency securities	$ 130,991	$ 2,334	$ 9,788	$ 212	$ 140,779	$ 2,546
Obligations of state and political subdivisions	51,696	2,067	8,831	464	60,527	2,531
Collateralized mortgage obligations	40	1	36	1	76	2
Commercial pass-through securities	94,374	4,764	-	-	94,374	4,764
Total	$ 277,101	$ 9,166	$ 18,655	$ 677	$ 295,756	$ 9,843
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 March 31, 2014 totaled 165 and included seven U.S. agency securities, 132 municipal obligations, six 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;

- 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 March 31, 2014 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 $742.3 million at March 31, 2014 and comprised 56.7% of total investments and 22.0% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government agencies and/or government-sponsored entities ("GSEs") such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis at which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby strengthening the creditworthiness of the mortgage-backed securities issued by those agencies.

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

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

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

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

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

U.S. Agency Debt Securities. The carrying value of the Company’s U.S. agency debt securities totaled $148.9 million at March 31, 2014 and comprised 11.4% of total investments and 4.4% of total assets as of that date. Such securities included $144.4 million of fixed-rate U.S. agency debentures and $4.4 million of securities representing securitized pools of loans issued and fully guaranteed by the Small Business Administration (“SBA”), a U.S. government agency.

With credit risk being reduced to negligible levels due to the issuer’s guarantee, the unrealized losses on the Company’s investment in U.S. agency debentures are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company’s U.S. agency debentures, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are 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 March 31, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of U.S. agency securities with unrealized losses at March 31, 2014 to be "other-than-temporarily" impaired as of that date.

Obligations of State and Political Subdivisions. The carrying value of the Company's securities representing obligations of state and political subdivisions totaled $94.1 million at March 31, 2014 and comprised 7.2% of total investments and 2.8% of total assets as of that date. Such securities include approximately $91.6 million of fixed-rate, bank-qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. The portfolio also includes $2.5 million of non-rated bond anticipation notes ("BANs") comprising seven short-term obligations issued by a total of four New Jersey municipalities with whom the Company maintains or seeks to maintain deposit relationships. At March 31, 2014, the fair value of each of the Company's BANs equaled or exceeded their respective carrying values resulting in no reported impairment on those securities as of that date.

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

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

At March 31, 2014, each of the Company's impaired municipal obligations were consistently rated by Moody's Investors Service ("Moody's") and Standard & Poor's Financial Services ("S&P") well above the thresholds that generally support the Company's investment grade assessment with such ratings equaling or exceeding "A" or higher by S&P and/or "A1" or higher by Moody's, where rated by those agencies. In the absence of such ratings, the Company relies upon its own internal analysis of the issuer's financial condition to validate its investment grade assessment.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company's investment in municipal obligations are due largely to the

combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company's municipal obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are 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 March 31, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company's amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of obligations of state and political subdivisions with unrealized losses at March 31, 2014 to be "other-than-temporarily" impaired as of that date.

Asset-backed Securities. The carrying value of the Company's asset-backed securities totaled $86.8 million at March 31, 2014 and comprised 6.6% of total investments and 2.6% 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 March 31, 2014.

With credit risk being reduced to nominal levels due to the guarantees and structural support noted above, the unrealized losses on the Company's investment in asset-backed securities are due largely to the combined effects of several market-related factors including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company's asset-backed securities, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities 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 March 31, 2014. In light of the factors noted, the Company does not consider its balance of asset-backed securities with unrealized losses at March 31, 2014 to be "other-than-temporarily" impaired as of that date.

Collateralized Loan Obligations. The outstanding balance of the Company's collateralized loan obligations totaled $69.7 million at March 31, 2014 and comprised 5.3% of total investments and 2.1% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities comprised of securitized commercial loans to large, U.S. corporations. The Company's securities represent tranches of a larger investment vehicle designed to reallocate cash flows and credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans.

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

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

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

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company's investment in collateralized loan obligations are due largely to the combined effects of several market-related factors including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company's collateralized loan obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities 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. During the prior quarter ended December 31, 2013, the Company evaluated its entire portfolio of collateralized loan obligations and sold those securities that it identified as potentially ineligible investments under the terms of the "Volcker Rule" whose provisions were enacted by regulatory agencies during the current quarter in conjunction with the ongoing adoption and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Company concluded that the possibility of being required to sell its current collateralized loan obligations prior to their anticipated recovery is unlikely based upon their eligibility under the terms of the Volcker Rule in conjunction with the overall strength of the Company's liquidity, asset quality and capital position as of March 31, 2014.

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

Corporate Bonds. The carrying value of the Company's corporate bonds totaled $159.3 million at March 31, 2014 and comprised 12.2% of total investments and 4.7% 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 March 31, 2014, each of the Company's impaired corporate bonds were consistently rated by Moody's and S&P above the thresholds that generally support the Company's investment grade assessment with such ratings equaling or exceeding "A-" or higher by S&P and/or "Baa1" or higher by Moody's, where rated by those agencies.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company's investment in corporate bonds are due largely to the combined effects of several market-related factors including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company's corporate bonds, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities 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 March 31, 2014. In light of the factors noted, the Company does not consider its balance of corporate bonds with unrealized losses at March 31, 2014 to be "other-than-temporarily" impaired as of that date.

Trust Preferred Securities. The carrying value of the Company's trust preferred securities totaled $7.5 million at March 31, 2014 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five "single-issuer" (i.e. non-pooled) trust preferred securities, four of which are impaired as of March 31, 2014, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company's five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

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

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

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

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

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

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 March 31, 2014. Factors generally considered in such evaluations included the financial strength and viability of the issuer and its parent company, the security's historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security's current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security's expected future cash flows in relation to its amortized cost basis.

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

In sum, the factors influencing the fair value of the Company's trust preferred securities and the resulting impairment attributable to each generally resulted from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market

conditions may generally fluctuate over time resulting in the securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both “noncredit-related” and “temporary” in nature.

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company’s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of March 31, 2014. Moreover, as “single issuer” obligations, these securities fall outside the scope of the Volker rule discussed earlier that originally identified pooled trust preferred securities as potentially ineligible investments for banks. In light of the factors noted, the Company does not consider its investments in trust preferred securities with unrealized losses at March 31, 2014 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 generally 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. Nonaccrual loans and 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 March 31, 2014, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately $12,242,000 and $10,008,000, 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 $1,906,000 and $1,952,000 at March 31, 2014 and June 30, 2013, respectively.

The balance of the allowance for loan losses at March 31, 2014 and June 30, 2013 included approximately $9,000 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 and nine months ended March 31, 2014 and March 31, 2013.

	Three Months Ended March 31, 2014 (in thousands)	Three Months Ended March 31, 2013 (in thousands)
Beginning balance	$ 2,123	$ 1,088
Accretion to interest income	(60)	(250)
Disposals	-	-
Reclassifications from nonaccretable difference	-	-
Ending balance	$ 2,063	$ 838

	Nine Months Ended March 31, 2014 (in thousands)	Nine Months Ended March 31, 2013 (in thousands)
Beginning balance	$ 741	$ 1,461
Accretion to interest income	(172)	(532)
Disposals	-	(91)
Reclassifications from nonaccretable difference	1,494	-
Ending balance	$ 2,063	$ 838

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 and 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