Investors Bancorp Inc
Form 10-Q
May 10, 2011

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

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

For the quarterly period ended: March 31, 2011
Commission file number: 0-51557
Investors Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**22-3493930**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 JFK Parkway, Short Hills, New Jersey 07078
(Address of principal executive offices)
(973) 924-5100
(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting companyo

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

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

As of April 29, 2011 there were 113,166,850 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 64,844,373 shares, or 57.3% of the Registrant s outstanding common stock, were held by Investors Bancorp, MHC, the Registrant s mutual holding company.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2011(unaudited) and December 31, 2010

	March 31, 2011	December 31, 2010
	(In thousands)	
Assets		
Cash and cash equivalents	$ 77,610	76,224
Securities available-for-sale, at estimated fair value	658,115	602,733
Securities held-to-maturity, net (estimated fair value of $459,144 and $514,223 at March 31, 2011 and December 31, 2010, respectively)	422,778	478,536
Loans receivable, net	8,151,658	7,917,705
Loans held-for-sale	15,692	35,054
Stock in the Federal Home Loan Bank	91,737	80,369
Accrued interest receivable	40,136	40,541
Other Real Estate Owned	1,399	976
Office properties and equipment, net	58,271	56,927
Net deferred tax asset	130,238	128,210
Bank owned life insurance	111,207	117,039
Intangible assets	39,700	39,004
Other assets	26,300	28,813
Total assets	$ 9,824,841	9,602,131
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$ 6,727,544	6,774,930
Borrowed funds	2,067,007	1,826,514
Advance payments by borrowers for taxes and insurance	40,811	34,977
Other liabilities	70,385	64,431
Total liabilities	8,905,747	8,700,852
Stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized; 118,020,280 issued; 113,166,850 and 112,851,127 outstanding at March 31, 2011 and December 31, 2010, respectively	532	532
Additional paid-in capital	529,826	533,720
Retained earnings	500,924	483,269
Treasury stock, at cost; 4,853,430 and 5,169,153 shares at March 31, 2011 and December 31, 2010, respectively	(57,340)	(62,033)
Unallocated common stock held by the employee stock ownership plan	(33,678)	(34,033)
Accumulated other comprehensive loss	(21,170)	(20,176)

Total stockholders equity	919,094	901,279
Total liabilities and stockholders equity	$ 9,824,841	9,602,131

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31,	
	2011	**2010**
	(Dollars in thousands, except per share data)	
Interest and dividend income:		
Loans receivable and loans held-for-sale	$ 103,481	91,028
Securities:		
Government-sponsored enterprise obligations	169	198
Mortgage-backed securities	7,575	10,046
Municipal bonds and other debt	1,356	795
Interest-bearing deposits	17	73
Federal Home Loan Bank stock	1,082	928
Total interest and dividend income	113,680	103,068
Interest expense:		
Deposits	19,988	23,760
Secured borrowings	15,955	17,378
Total interest expense	35,943	41,138
Net interest income	77,737	61,930
Provision for loan losses	17,000	13,050
Net interest income after provision for loan losses	60,737	48,880
Non-interest income		
Fees and service charges	3,459	1,590
Income on bank owned life insurance	649	521
Gain on sales of loans, net	2,255	1,747
Gain (loss) on securities transactions	23	(48)
Other income	116	123
Total non-interest income	6,502	3,933
Non-interest expense		
Compensation and fringe benefits	22,050	17,136
Advertising and promotional expense	1,377	872
Office occupancy and equipment expense	6,229	4,356
Federal insurance premiums	2,700	3,225
Stationery, printing, supplies and telephone	789	635

Professional fees		1,011	1,082
Data processing service fees		1,932	1,431
Other operating expenses		2,209	1,689
Total non-interest expenses		38,297	30,426
Income before income tax expense		28,942	22,387
Income tax expense		10,728	9,077
Net income	$	18,214	13,310
Basic and diluted earnings per share	$	0.17	0.12
Weighted average shares outstanding			
Basic		108,538,442	110,146,888
Diluted		108,686,529	110,201,851

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. & SUBSIDIARIES
Consolidated Statements of Stockholder s Equity
Three months ended March 31, 2011 and 2010
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unallocated Common Stock Held by ESOP	Accumulated other comprehensive loss	Total stockholders equity
				(In thousands)			
Balance at December 31, 2009	$ 532	530,133	422,211	(44,810)	(35,451)	(22,402)	850,213
Comprehensive income:							
Net income			13,310				13,310
Change in funded status of retirement obligations, net of tax expense of $36						53	53
Unrealized gain on securities available-for-sale, net of tax expense of $1,138						1,910	1,910
Other-than-temporary impairment accretion on debt securities, net of tax expense of $401						580	580
Total comprehensive income							15,853
Purchase of treasury stock (50,500 shares)				(608)			(608)
Treasury stock allocated to restricted stock plan		(6,272)	(961)	7,233			
Compensation cost for stock options and restricted stock		2,335					2,335
ESOP shares allocated or committed to be released		79		2	355		436
Balance at March 31, 2010	$ 532	526,275	434,560	(38,183)	(35,096)	(19,859)	868,229

Balance at December 31, 2010	$ 532	533,720	483,269	(62,033)	(34,033)	(20,176)	901,279
Comprehensive income:							
Net income			18,214				18,214
Change in funded status of retirement obligations, net of tax expense of $35						52	52
Unrealized loss on securities available-for-sale, net of tax benefit of $1,004						(1,264)	(1,264)
Other-than-temporary impairment accretion on debt securities, net of tax expense of $151						218	218
Total comprehensive income							17,220
Purchase of treasury stock (184,277 shares)				(2,454)			(2,454)
Treasury stock allocated to restricted stock plan		(6,588)	(559)	7,147			
Compensation cost for stock options and restricted stock		2,561					2,561
ESOP shares allocated or committed to be released		133			355		488
Balance at March 31, 2011	$ 532	529,826	500,924	(57,340)	(33,678)	(21,170)	919,094

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March	
	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 18,214	13,310
Adjustments to reconcile net income to net cash provided by operating activities		
ESOP and stock-based compensation expense	3,049	2,769
Amortization of premiums and accretion of discounts on securities, net	1,362	1,903
Amortization of premium and accretion of fees and costs on loans, net	2,106	1,489
Amortization of intangible assets	392	183
Provision for loan losses	17,000	13,050
Depreciation and amortization of office properties and equipment	1,334	1,016
(Gain) loss on securities transactions	(23)	48
Mortgage loans originated for sale	(104,312)	(118,700)
Proceeds from mortgage loan sales	125,502	124,323
Gain on sales of loans, net	(1,828)	(1,196)
Income on bank owned life insurance contract	(649)	(521)
Decrease (increase) in accrued interest	405	(652)
Deferred tax benefit	(1,259)	(2,169)
Decrease in other assets	1,788	3,717
Increase in other liabilities	5,304	21,890
Total adjustments	50,171	47,150
Net cash provided by operating activities	68,385	60,460
Cash flows from investing activities:		
Purchases of loans receivable	(210,596)	(245,869)
Net (originations) repayments of loans receivable	(42,463)	43,927
Proceeds from disposition of loans held for investment	427	2,984
Gain on disposition of loans held for investment	(427)	(551)
Purchases of mortgage-backed securities available-for-sale	(106,594)	(98,944)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	51,813	59,611
Proceeds from calls/maturities on debt securities held-to-maturity	4,930	(244)
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	46,989	34,288
Proceeds from maturities of US Government and agency obligations available-for-sale		15,000
Proceeds from redemptions of Federal Home Loan Bank stock	16,605	5,940
Purchases of Federal Home Loan Bank stock	(27,973)	(13,815)
Purchases of office properties and equipment	(2,678)	(2,378)

Death benefit proceeds from bank owned life insurance		6,481	
Net cash used in investing activities		(263,486)	(200,051)
Cash flows from financing activities:			
Net (decrease) increase in deposits		(47,386)	172,321
Repayments of funds borrowed under other repurchase agreements			(75,000)
Net increase in other borrowings		240,493	249,993
Net increase in advance payments by borrowers for taxes and insurance		5,834	3,819
Purchase of treasury stock		(2,454)	(608)
Net cash provided by financing activities		196,487	350,525
Net increase in cash and cash equivalents		1,386	210,934
Cash and cash equivalents at beginning of the period		76,224	73,606
Cash and cash equivalents at end of the period	$	77,610	284,540
Supplemental cash flow information:			
Noncash investing activities:			
Real estate acquired through foreclosure	$	423	
Cash paid during the year for:			
Interest	$	36,060	41,136
Income taxes	$	2,653	2,600

See accompanying notes to consolidated financial statements

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INVESTORS BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements are comprised of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiaries, including Investors Savings Bank Bank (collectively, the Company) and the Bank s wholly-owned subsidiaries.

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three-month period ended March 31, 2011 are not necessarily indicative of the results of operations that may be expected for subsequent periods.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company s audited consolidated financial statements and notes to consolidated financial statements included in the Company s December 31, 2010 Annual Report on Form 10-K. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Business Combinations

On October 15, 2010, the Company completed the acquisition of Millennium bcpbank (Millennium) deposit franchise. In this transaction the Company acquired approximately $600 million of deposits and seventeen branch offices in New Jersey, New York and Massachusetts for a deposit premium of 0.11%. The acquisition was accounted for under the acquisition method of accounting as prescribed by ASC 805, Business Combinations, as amended. The transaction resulted in a bargain purchase gain of $1.8 million, net of tax. In a separate transaction the Company purchased a portion of Millennium s performing loan portfolio and entered into a Loan Servicing Agreement to service those loans it did not purchase. Upon acquisition, the Company entered into a definitive agreement with a third party to sell the four Massachusetts branch offices with deposits of approximately $65 million, for a premium of 0.11%. The sale of these branches closed on May 6, 2011.

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3. Earnings Per Share

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

	For the Three Months Ended March 31,					
	2011			2010		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(Dollars in thousands, except per share data)					
Net Income	$ 18,214			$ 13,310		
Basic earnings per share:						
Income available to common stockholders	$ 18,214	108,538,442	$ 0.17	$ 13,310	110,146,888	$ 0.12
Effect of dilutive common stock equivalents		148,087			54,963	
Diluted earnings per share:						
Income available to common stockholders	$ 18,214	108,686,529	$ 0.17	$ 13,310	110,201,851	$ 0.12

For the three months ended March 31, 2011 and March 31, 2010 there were 4.9 million and 5.8 million equity awards, respectively, that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

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4. Securities

The amortized cost, gross unrealized gains and losses and estimated fair value of securities available-for-sale and held-to-maturity for the dates indicated are as follows:

	March 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$ 2,048	400		2,448
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	274,895	3,259	4,714	273,440
Federal National Mortgage Association	341,559	3,960	2,858	342,661
Government National Mortgage Association	8,790	154		8,944
Non-agency securities	31,373	438	1,189	30,622
Total mortgage-backed securities available-for-sale	656,617	7,811	8,761	655,667
Total securities available-for-sale	658,665	8,211	8,761	658,115
Held-to-maturity:				
Debt securities:				
Government-sponsored enterprises	15,193	95		15,288
Municipal bonds	9,085	33	158	8,960
Corporate and other debt securities	24,563	22,681	1,688	45,556
	48,841	22,809	1,846	69,804
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	180,819	7,074	544	187,349
Federal National Mortgage Association	148,853	8,181	30	157,004
Government National Mortgage Association	3,131	209		3,340
Federal housing authorities	2,265	125		2,390
Non-agency securities	38,869	537	149	39,257
Total mortgage-backed securities held-to-maturity	373,937	16,126	723	389,340
Total securities held-to-maturity	422,778	38,935	2,569	459,144
Total securities	$ 1,081,443	47,146	11,330	1,117,259

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	December 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available-for-sale:				
Equity securities	$ 2,025	207		2,232
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	248,403	3,485	3,553	248,335
Federal National Mortgage Association	306,745	4,297	2,085	308,957
Government National Mortgage Association	9,202	243		9,445
Non-agency securities	34,640	532	1,408	33,764
Total mortgage-backed securities available-for-sale	598,990	8,557	7,046	600,501
Total securities available-for-sale	601,015	8,764	7,046	602,733
Held-to-maturity:				
Debt securities:				
Government-sponsored enterprises	15,200	246		15,446
Municipal bonds	13,951	46	90	13,907
Corporate and other debt securities	23,552	19,330	1,593	41,289
	52,703	19,622	1,683	70,642
Mortgage-backed securities:				
Federal Home Loan Mortgage Corporation	210,544	7,964	278	218,230
Federal National Mortgage Association	166,251	9,218	13	175,456
Government National Mortgage Association	3,243	287		3,530
Federal housing authorities	2,324	152		2,476
Non-agency securities	43,471	573	155	43,889
Total mortgage-backed securities held-to-maturity	425,833	18,194	446	443,581
Total securities held-to-maturity	478,536	37,816	2,129	514,223
Total securities	$ 1,079,551	46,580	9,175	1,116,956

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Gross unrealized losses on securities available-for-sale and held-to-maturity and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2011 and December 31, 2010, was as follows:

	March 31, 2011					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	$ 121,019	4,714			121,019	4,714
Federal National Mortgage Association	184,461	2,858			184,461	2,858
Non-agency securities			12,211	1,189	12,211	1,189
	305,480	7,572	12,211	1,189	317,691	8,761
Total available-for-sale:	305,480	7,572	12,211	1,189	317,691	8,761
Held-to-maturity:						
Debt securities:						
Municipal bonds	7,632	158			7,632	158
Corporate and other debt securities	667	213	344	1,475	1,011	1,688
	8,299	371	344	1,475	8,643	1,846
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	18,949	544			18,949	544
Federal National Mortgage Association	2,039	30			2,039	30
Non-agency securities	3,229	5	2,893	144	6,122	149
	24,217	579	2,893	144	27,110	723
Total held-to-maturity	32,516	950	3,237	1,619	35,753	2,569
Total	$ 337,996	8,522	15,448	2,808	353,444	11,330

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	December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available-for-sale:						
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	$ 99,704	3,553			99,704	3,553
Federal National Mortgage Association	134,853	2,085			134,853	2,085
Non-agency securities			12,226	1,408	12,226	1,408
	234,557	5,638	12,226	1,408	246,783	7,046
Total available-for-sale:	234,557	5,638	12,226	1,408	246,783	7,046
Held-to-maturity:						
Debt securities:						
Municipal bonds			7,699	90	7,699	90
Corporate and other debt securities	185	806	825	787	1,010	1,593
	185	806	8,524	877	8,709	1,683
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	2,034	8	20,413	270	22,447	278
Federal National Mortgage Association			2,067	13	2,067	13
Non-agency securities	2,960	149	4,558	6	7,518	155
	4,994	157	27,038	289	32,032	446
Total held-to-maturity:	5,179	963	35,562	1,166	40,741	2,129
Total	$ 239,736	6,601	47,788	2,574	287,524	9,175

For our debt securities that have an estimated fair value less than the amortized cost basis, the gross unrealized losses were primarily in our available-for-sale mortgage-backed securities, which accounted for 77.3% of the gross unrealized losses at March 31, 2011. The total estimated fair value of our available-for-sale mortgage-backed securities represented 58.7% of our total investment portfolio at March 31, 2011. The estimated fair value of our non-agency mortgage-backed and our corporate and other debt securities portfolios have been adversely impacted by the current economic environment, current market rates, wider credit spreads and credit deterioration subsequent to the purchase of these securities.

Our non-agency mortgage-backed securities are not guaranteed by Government Sponsored Enterprise (GSE) entities and complied with the investment and credit standards set forth in the investment policy of the Company at the time of purchase. At March 31, 2011, the significant portion of the portfolio was comprised of 23 non-agency mortgage-backed securities with an amortized cost of $70.2 million and an estimated fair value of $69.9 million. These securities were originated in the period 2002-2004 and substantially all are performing in accordance with contractual terms. For securities with larger decreases in fair values, management estimates the loss projections for each security by stressing the individual loans collateralizing the security with a range of expected default rates, loss severities, and prepayment speeds. These considerations may be mitigated by the underlying credit enhancement (if applicable) for each

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security. Based on those specific assumptions, a range of possible cash flows were identified to determine whether other-than-temporary impairment existed as of March 31, 2011. Under certain stress scenarios estimated future losses may arise. Management determined that no additional other-than-temporary impairment existed as of March 31, 2011. Our corporate and other debt securities portfolio consists of 33 pooled trust preferred securities, (TruPS) principally issued by banks, of which 3 securities were rated AAA and 30 securities were rated A at the date of purchase and through June 30, 2008. Subsequently, due to adverse economic conditions, the majority of these securities have been downgraded below investment grade. At March 31, 2011, the amortized cost and estimated fair values of the trust preferred portfolio was $24.6 million and $45.6 million, respectively. Through the use of a valuation specialist, we evaluate the credit and performance of each underlying issuer by deriving probabilities and assumptions for default, recovery and prepayment/amortization for the expected cashflows for each security. At March 31, 2011, management deemed that the present value of projected cashflows for each security was greater than the book value and did not recognize any OTTI charges for the three months ended March 31, 2011. The Company has no intent to sell, nor is it more likely than not that the Company will be required to sell, the debt securities before the recovery of their amortized cost basis or maturity.

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The following table summarizes the Company s pooled trust preferred securities which are at least one rating below investment grade as of March 31, 2011. In addition, at March 31, 2011 the Company held 2 pooled trust preferred securities with a book value of $4.1 million and a fair value of $6.8 million which are investment grade. The Company does not own any single-issuer trust preferred securities.

(Dollars in 000 s) Description	Class	Book Value	Fair Value	Unrealized Gains (Losses)	Number of Issuers Currently Performing	Current Deferrals and Defaults as a % of Total Collateral (1)	Expected Deferrals and Defaults as % of Remaining Collateral (2)	Excess Subordination as a % of Performing Collateral (3)	Moody s/ Fitch Credit Ratings
Alesco PF II	B1	$ 191.6	$ 350.5	$ 158.9	33	9.6%	16.4%	0.0%	Ca / C
Alesco PF III	B1	402.5	797.0	394.5	38	9.6%	17.2%	0.0%	Ca / C
Alesco PF III	B2	161.1	318.8	157.7	38	9.6%	17.2%	0.0%	Ca / C
Alesco PF IV	B1	259.0	166.2	(92.8)	40	6.1%	26.4%	0.0%	C / C
Alesco PF VI	C2	357.8	877.0	519.2	42	7.1%	21.7%	0.0%	Ca / C
MM Comm III	B	1,124.3	4,790.2	3,665.9	7	20.9%	11.6%	12.8%	Ba1 / CC
MM Comm IX	B1	55.8	37.3	(18.5)	20	22.1%	31.2%	0.0%	Caa3 / C
MMCaps XVII	C1	856.3	2,123.8	1,267.5	41	10.5%	15.4%	0.0%	Ca / C
MMCaps XIX	C	414.5	6.5	(408.0)	30	28.4%	24.5%	0.0%	C / C
Tpref I	B	1,148.7	2,519.8	1,371.1	12	38.2%	95.2%	0.0%	Ca / D
Tpref II	B	2,549.8	4,977.6	2,427.8	20	26.9%	25.4%	0.0%	Caa3 / C
US Cap I	B2	573.3	1,363.2	789.9	36	8.4%	14.0%	0.0%	Caa1 / C
US Cap I	B1	1,698.8	4,089.6	2,390.8	36	8.4%	14.0%	0.0%	Caa1 / C
US Cap II	B1	840.0	2,469.5	1,629.5	45	11.9%	15.5%	0.0%	Ca / C
US Cap III	B1	1,016.8	2,229.1	1,212.3	33	17.3%	17.5%	0.0%	Ca / C
US Cap IV	B1	796.5	144.0	(652.5)	46	31.4%	24.8%	0.0%	C / D
Trapeza XII	C1	893.6	951.1	57.5	34	22.9%	17.9%	0.0%	C / C
Trapeza XIII	C1	848.8	1,180.0	331.2	43	17.9%	22.7%	0.0%	Ca / C
Pretsl IV	Mez	116.0	135.7	19.7	5	27.1%	17.0%	19.0%	Ca / CCC
Pretsl V	Mez	7.2	14.8	7.6	0	65.5%	0.0%	0.0%	Caa3 / D
Pretsl VII	Mez	1,065.4	1,663.2	597.8	7	37.4%	69.4%	0.0%	Ca / C
Pretsl XV	B1	651.2	1,064.7	413.5	54	23.2%	19.9%	0.0%	C / C
Pretsl XVII	C	386.6	363.7	(22.9)	36	16.3%	29.2%	0.0%	Ca / C
Pretsl XVIII	C	832.8	1,960.3	1,127.5	58	16.5%	14.0%	0.0%	Ca / C
Pretsl XIX	C	324.8	499.0	174.2	54	20.1%	14.7%	0.0%	C / C
Pretsl XX	C	182.7	82.3	(100.4)	45	23.6%	19.5%	0.0%	C / C
Pretsl XXI	C1	280.8	455.0	174.2	53	24.1%	20.4%	0.0%	C / C
Pretsl XXIII	A-FP	1,697.6	2,583.1	885.5	98	18.9%	17.6%	18.3%	B1 / B
Pretsl XXIV	C1	425.4	111.5	(313.9)	62	23.0%	27.2%	0.0%	Ca / C
Pretsl XXV	C1	178.3	99.4	(78.9)	51	23.9%	25.6%	0.0%	C / C
Pretsl XXVI	C1	170.2	343.7	173.5	54	21.1%	20.6%	0.0%	C / C
		$ 20,508.2	$ 38,767.6	$ 18,259.4					

(1) At March 31, 2011, assumed recoveries for current deferrals and defaulted issuers ranged from 0.0% to 10.0% .

(2) At March 31, 2011, assumed recoveries for expected deferrals and defaulted issuers ranged from 5.5% to 12.4%.

(3) Excess subordination represents the amount of remaining performing collateral that is in excess of the amount needed to pay off a specified class of bonds and all classes senior to the specified class. Excess subordination reduces an investor s potential risk of loss on their investment as excess subordination absorbs principal and interest shortfalls in the event underlying issuers are not able to make their contractual payments.

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The following table presents the changes in the credit loss component of the impairment loss of debt securities that the Company has written down for such loss as an other-than-temporary impairment recognized in earnings.

	Three months ended March 31,	
	2011	**2010**
	(In thousands)	
Balance of credit related OTTI, beginning of period	$ 120,013	121,003
Additions:		
Initial credit impairments		
Subsequent credit impairments		
Reductions:		
Accretion of credit loss impairment due to an increase in expected cash flows	(702)	
Balance of credit related OTTI, end of period	$ 119,311	121,003

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the securities prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to the period presented. If other-than-temporary impairment is recognized in earnings for credit impaired debt securities, they would be presented as additions in two components based upon whether the current period is the first time a debt security was credit impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) the Company receives the cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

At March 31, 2011, non credit-related OTTI was $32.9 million ($19.5 million after-tax) on securities not expected to be sold and for which it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis.

There were no sales from the securities portfolio during the quarter ended March 31, 2011. A portion of the Company s securities are pledged to secure borrowings.

The contractual maturities of mortgage-backed securities generally exceed 20 years; however, the effective lives are expected to be shorter due to anticipated prepayments. Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer. The amortized cost and estimated fair value of debt securities at March 31, 2011, by contractual maturity, are shown below.

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	March 31, 2011	
	Amortized cost	Estimated fair value
	(In thousands)	
Due in one year or less	$ 2,785	2,778
Due after one year through five years	16,151	16,276
Due after five years through ten years	20	215
Due after ten years	29,885	50,535
Total	$ 48,841	69,804

5. Loans Receivable, Net

Loans receivable, net are summarized as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Residential mortgage loans	$ 4,986,949	4,939,244
Multi-family loans	1,293,217	1,161,874
Commercial real estate loans	1,285,733	1,225,256
Construction loans	335,346	347,825
Consumer and other loans	252,477	259,757
Commercial and industrial loans	82,990	60,903
Total loans	8,236,712	7,994,859
Net unamortized premiums and deferred loan costs	13,837	13,777
Allowance for loan losses	(98,891)	(90,931)
Net loans	$ 8,151,658	7,917,705

An analysis of the allowance for loan losses is summarized as follows:

	Three months ended March 31,	
	2011	2010
	(In thousands)	
Balance at beginning of period	$ 90,931	$ 55,052
Charge-offs:		
Construction loans	(7,043)	(3,250)
Residential mortgage loans	(1,453)	(1,446)
Multi-family loans		(454)
Consumer and other loans	(88)	(10)
Commercial and industrial loans	(470)	
Loan charge-offs	(9,054)	(5,160)
Recoveries	14	1

Net charge-offs	(9,040)	(5,159)
Provision for loan losses	17,000	13,050
Balance at end of period	$ 98,891	$ 62,943

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

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

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $3.0 million and on non-accrual status, loans modified in a troubled debt restructuring, and other loans if management has specific information of a collateral shortfall. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company s definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

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

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

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

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its loan workout department s knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company s policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the loan remains in non-performing status and the foreclosure process has not been completed. Management does not typically make adjustments to the appraised value of residential loans other than to reduce the value for estimated selling costs, if applicable.

In determining the allowance for loan losses, management believes the potential for outdated appraisals has been mitigated for impaired loans and other non-performing loans. As described above, the loans are individually assessed to determine that the loan s carrying value is not in excess of the fair value of the collateral. Loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt.

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

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current economic environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2011.

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	Residential Mortgage	Multi-Family	Commercial	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Unallocated	Total
				(In thousands)				
Allowance for loan losses:								
Beginning balance-December 31, 2010	$ 20,489	10,454	16,432	34,669	2,189	866	5,832	90,931
Charge-offs	(1,453)		(470)	(7,043)		(88)		(9,054)
Recoveries				3	1	10		14
Provision	3,026	1,132	2,533	7,535	575	56	2,143	17,000
Ending balance	$ 22,062	11,586	18,495	35,164	2,765	844	7,975	98,891
Ending balance Individually evaluated for impairment	$ 1,202		340	6,348				7,890
Collectively evaluated for impairment	20,860	11,586	18,155	28,816	2,765	844	7,975	91,001
Loans acquired with deteriorated credit quality								
	$ 22,062	11,586	18,495	35,164	2,765	844	7,975	98,891
Loans:								
Ending balance Individually evaluated for impairment	$ 4,808		2,271	54,381				61,460
Collectively evaluated for impairment	4,981,534	1,293,217	1,281,944	273,899	82,990	252,268		8,165,852
Loans acquired with deteriorated credit quality	607		1,518	7,066		209		9,400
	$ 4,986,949	1,293,217	1,285,733	335,346	82,990	252,477		8,236,712

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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. For non-homogeneous loans, such as commercial and commercial real estate loans the Company analyzes the loans individually by classifying the loans as to credit risk and assesses the probability of collection for each type of class. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass Pass assets are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

Special Mention A Special Mention asset has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss An asset or portion thereof, classified Loss is considered uncollectible and of such little value that its continuance on the institution s books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery will occur. As such, it is not practical or desirable to defer the write-off.

As of March 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
			(In thousands)			
Multi-Family	$ 1,238,305	17,381	37,531			1,293,217
Commercial	1,230,192	21,945	33,596			1,285,733
Construction Loans	155,642	32,718	138,770	8,216		335,346
Commercial and Industrial	75,464	885	5,516	1,125		82,990
Total	$ 2,699,603	72,929	215,413	9,341		2,997,286

Residential and consumer loans are managed on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more are considered non-accrual. A specific reserve is established for residential loans meeting this criteria if the net realizable value is determined to be less than the loan balance. The following table presents the recorded

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investment in residential and consumer loans based on payment activity as of March 31, 2011:

	Performing	Non-accrual (In thousands)	Total
Residential	$ 4,907,165	79,784	4,986,949
Consumer and other	251,448	1,029	252,477
Total	$ 5,158,613	80,813	5,239,426

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011 by class of loans:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable
			(In thousands)			
Residential Mortgage	$ 14,844	3,833	79,784	98,461	4,888,488	4,986,949
Multi-Family		25,014	2,748	27,762	1,265,455	1,293,217
Commercial	4,818	677	4,674	10,169	1,275,564	1,285,733
Construction Loans		13,770	64,200	77,970	257,376	335,346
Commercial and Industrial			1,993	1,993	80,997	82,990
Consumer and Other	501	205	1,029	1,735	250,742	252,477
Total	$ 20,163	43,499	154,428	218,090	8,018,622	8,236,712

Included in loans receivable were non-accrual loans totaling $154.4 million at March 31, 2011 and $165.9 million at December 31, 2010. The Company has no loans past due 90 days or more that are still accruing interest.

At March 31, 2011 and December 31, 2010, loans meeting the Company s definition of an impaired loan were primarily collateral dependent and totaled $61.5 million, and $69.3 million, respectively, with allocations of the allowance for loan losses of $7.9 million, and $5.0 million, respectively. During the three months ended March 31, 2011 and year ended December 31, 2010, interest income received and recognized on these loans totaled $104,000, and $206,000, respectively. At March 31, 2011, there is one construction loan totaling $2.9 million, one commercial real estate loan totaling $2.3 million and 13 residential loans totaling $4.8 million which are deemed troubled debt restructurings.

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The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance (In thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential Mortgage	$			144	
Multi-Family					
Commercial					
Construction Loans	7,603	21,793		16,875	
Commercial and Industrial					
Consumer and Other					
With an allowance recorded:					
Residential Mortgage	4,808	4,808	1,202	4,671	34
Multi-Family					
Commercial	2,271	2,271	340	1,136	26
Construction Loans	46,778	59,020	6,348	42,542	44
Commercial and Industrial					
Consumer and Other					
Total:					
Residential Mortgage	4,808	4,808	1,202	4,815	34
Multi-Family					
Commercial	2,271	2,271	340	1,136	26
Construction Loans	54,381	80,813	6,348	59,417	44
Commercial and Industrial					
Consumer and Other					
Total impaired loans	$ 61,460	87,892	7,890	65,368	104

The average recorded investment is the annual average calculated based upon the ending quarterly balances. The interest income recognized is the year to date interest income recognized on a cash basis.

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6. Deposits

Deposits are summarized as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Savings acounts	$ 1,216,017	1,135,091
Checking accounts	1,314,762	1,367,282
Money market accounts	862,245	832,514
Total core deposits	3,393,024	3,334,887
Certificates of deposit	3,334,520	3,440,043
	$ 6,727,544	6,774,930

7. Equity Incentive Plan

During the three months ended March 31, 2011, the Company recorded $2.6 million of share-based expense, comprised of stock option expense of $822,000 and restricted stock expense of $1.7 million.

The following is a summary of the Company s stock option activity and related information for its option plans for the three months ended March 31, 2011:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2010	4,717,568	$ 15.01	6.1	$
Granted	15,000	13.88		
Exercised				
Forfeited				
Outstanding at March 31, 2011	4,732,568	$ 15.00	5.9	$
Exercisable at March 31, 2011	3,523,756	$ 15.07	5.8	$

The following is a summary of the status of the Company s non-vested options as of March 31, 2011 and changes therein during the three months then ended:

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	Number of Stock Options	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	587,429	$ 4.06
Granted	15,000	13.88
Vested	(32,301)	3.49
Exercised		
Forfeited		
Non-vested at March 31, 2011	570,128	$ 4.11

Expected future expense relating to the unvested options outstanding as of March 31, 2011 is $2.9 million over a weighted average period of 1.6 years.

The following is a summary of the status of the Company s restricted shares as of March 31, 2011 and changes therein during the three months then ended:

	Number of Stock Awards Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	861,047	$ 13.55
Granted	500,000	13.26
Vested	(109,721)	13.40
Forfeited		
Non-vested at March 31, 2011	1,251,326	$ 13.44

Expected future compensation expense relating to the unvested restricted shares at March 31, 2011 is $14.9 million over a weighted average period of 4.8 years.

8. Net Periodic Benefit Plans Expense

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to certain employees of the Company if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. For the Company s active directors as of December 31, 2006, the Company has a non-qualified, defined benefit plan which provides pension benefits. The SERP and the Directors plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The components of net periodic benefit expense for the SERP and Directors Plan are as follows:

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		Three months ended March 31,	
		2011	2010
		(In thousands)	
Service cost	$	265	179
Interest cost		203	221
Amortization of:			
Prior service cost		24	25
Net loss			14
Total net periodic benefit expense	$	492	439

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors plans during the year ending December 31, 2011.

The Company also maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. We did not contribute to the defined benefit pension plan during the three months ended March 31, 2011. We anticipate contributing funds to the plan to meet any minimum funding requirements.

Summit Federal, at the time of merger, had a funded non-contributory defined benefit pension plan covering all eligible employees and an unfunded, non-qualified defined benefit SERP for the benefit of certain key employees. At March 31, 2011 and December 31, 2010, the pension plan had an accrued liability of $677,000 and $681,000, respectively. At March 31, 2011 and December 31, 2010, the charges recognized in accumulated other comprehensive loss for the pension plan were $919,000 million and $934,000 million, respectively. At March 31, 2011 and December 31, 2010, the SERP plan had an accrued liability of $1.1 million and $1.1 million, respectively. At March 31, 2011 and December 31, 2010, the charges recognized in accumulated other comprehensive loss for the SERP plan were $120,000 and $152,000 respectively. For the three-month periods ended March 31, 2011 and 2010, the expense related to these plans was $93,000 and $74,000, respectively.

9. Fair Value Measurements

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

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* , we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Securities available-for-sale

Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders equity. Approximately 99% of our securities available-for-sale portfolio consists of mortgage-backed and government-sponsored enterprise securities. The fair values of these securities are obtained from an independent nationally recognized pricing service, which is then compared to a second independent pricing source for reasonableness. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the majority of securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed and government-sponsored enterprise securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The remaining 1% of our securities available-for-sale portfolio is comprised primarily of private fund investments for which the issuer provides us prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis at March 31, 2011 and December 31, 2010, respectively.

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	Carrying Value at March 31, 2011			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Mortgage-backed securities	$ 655,667		655,667	
Equity securities	2,448		2,448	
	$ 658,115		658,115	

	Carrying Value at December 31, 2010			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Securities available for sale:				
Mortgage-backed securities	$ 600,501		600,501	
Equity securities	2,232		2,232	
	$ 602,733		602,733	

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

Securities held-to-maturity

Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the held-to-maturity portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

Mortgage Servicing Rights, net

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

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Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $3.0 million and on non-accrual status, loans modified in a troubled debt restructuring, and other loans if management has specific information of a collateral shortfall. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. In order to estimate fair value, once interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful an updated appraisal is obtained. Thereafter, in the event the most recent appraisal does not reflect the current market conditions due to the passage of time and other factors, management will obtain an updated appraisal or make downward adjustments to the existing appraised value based on their knowledge of the property, local real estate market conditions, recent real estate transactions, and for estimated selling costs, if applicable. Therefore, these adjustments are generally classified as Level 3.

Other Real Estate Owned

Other Real Estate Owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a writedown is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Operating costs after acquisition are generally expensed.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at March 31, 2011 and December 31, 2010, respectively.

	Carrying Value at March 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
MSR, net	$ 961			961
Impaired loans	42,110			42,110
Other real estate owned	1,399			1,399
Total	$ 44,470			44,470

	Carrying Value at December 31, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
	(In thousands)			
MSR, net	$ 9,262			9,262
Impaired loans	53,920			53,920
Other real estate owned	976			976
Total	$ 64,158			64,158

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10. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions for the Company s financial instruments are set forth below.

Cash and Cash Equivalents

For cash and due from banks, the carrying amount approximates fair value.

Securities

The fair values of securities are estimated based on market values provided by an independent pricing service, where prices are available. If a quoted market price was not available, the fair value was estimated using quoted market values of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

FHLB Stock

The fair value of FHLB stock is its carrying value, since this is the amount for which it could be redeemed. There is no active market for this stock and the Bank is required to hold a minimum investment based upon the unpaid principal of home mortgage loans and/or FHLB advances outstanding.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources adjusted to reflect differences in servicing and credit costs, if applicable. Fair value for significant nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as savings, checking accounts and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates which approximate currently offered for deposits of similar remaining maturities.

Borrowings

The fair value of borrowings are based on securities dealers estimated market values, when available, or estimated using discounted contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

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Commitments to Extend Credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For commitments to originate fixed rate loans, fair value also considers the difference between current levels of interest rates and the committed rates. Due to the short-term nature of our outstanding commitments, the fair values of these commitments are immaterial to our financial condition.

The carrying amounts and estimated fair values of the Company s financial instruments are presented in the following table.

	March 31, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 77,610	77,610	76,224	76,224
Securities available-for-sale	658,115	658,115	602,733	602,733
Securities held-to-maturity	422,778	459,144	478,536	514,223
Stock in FHLB	91,737	91,737	80,369	80,369
Loans	8,167,350	8,411,145	7,952,759	8,231,847
Financial liabilities:				
Deposits	6,727,544	6,766,791	6,774,930	6,819,659
Borrowed funds	2,067,007	2,118,227	1,826,514	1,887,471

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred tax assets, premises and equipment and bank owned life insurance. Liabilities for pension and other postretirement benefits are not considered financial liabilities. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

11. Recent Accounting Pronouncements

In April 2011, the FASB issued Accounting Standards Update (ASU) 2011-03, which affects entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments in this Update remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company s financial condition or results of operations.

In April of 2011, the FASB issued ASU 2011-02, which states that when evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession and (2) the debtor is experiencing financial difficulties. The amendments also provide clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In addition, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Company does not expect that the adoption of this pronouncement will have a material impact on the Company s financial condition or results of operations.

In December 2010, the FASB issued ASU 2010-29, which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company s financial condition or results of operations.

In December 2010, the FASB issued ASU 2010-28, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company s financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20 to provide financial statement users with greater transparency about an entity s allowance for credit losses and the credit quality of its financing receivables. The objective of the ASU is to provide disclosures that assist financial statement users in their evaluation of (1) the nature of an entity s credit risk associated with its financing receivables, (2) how the entity analyzes and assesses that risk in arriving at the allowance for credit losses and (3) the changes in the allowance for credit losses and the reasons for those changes. Disclosures provided to meet the objective above should be provided on a disaggregated basis. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB issued ASU No. 2011-01 Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 which defers the effective date of the loan modification disclosures. The adoption of this pronouncement did not have a material impact on the Company s financial condition or results of operations. The disclosures required by this pronouncement can be found in Note 5 of the Notes to Consolidated Financial Statements.

In April 2010, the FASB issued ASU 2010-18, which states that modifications of loans that are accounted for within a pool under ASC 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of ASC 310-30 that are not accounted for within pools. Loans accounted for individually under ASC 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC 310-40, Receivables Troubled Debt Restructurings by Creditors . The amendments are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of this pronouncement did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In January 2010, the FASB issued ASU 2010-06 to improve disclosures about fair value measurements. This guidance requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this pronouncement did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

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12. Subsequent Events

As defined in FASB ASC 855-10, *Subsequent Events*, subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or available to be issued. Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that compiles with GAAP.

On May 6, 2011 the Company completed the sale of the four Massachusetts branch offices acquired in the Millenium deposit franchise acquisition (see footnote 2). The four branches, with deposits of approximately $65 million, were sold for a premium of 0.11%.

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

Forward Looking Statements

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

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

Critical Accounting Policies

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

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

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

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $3.0 million and on non-accrual status, loans modified in a troubled debt restructuring, and other loans if management has specific information of a collateral shortfall. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company s definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

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

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

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Our primary lending emphasis has been the origination and purchase of residential mortgage loans and commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

For commercial real estate, construction and multi-family loans, the Company obtains an appraisal for all collateral dependent loans upon origination and an updated appraisal in the event interest or principal payments are 90 days delinquent or when the timely collection of such income is considered doubtful. This is done in order to determine the specific reserve needed upon initial recognition of a collateral dependent loan as non-accrual and/or impaired. In subsequent reporting periods, as part of the allowance for loan loss process, the Company reviews each collateral dependent commercial real estate loan previously classified as non-accrual and/or impaired and assesses whether there has been an adverse change in the collateral value supporting the loan. The Company utilizes information from its commercial lending officers and its loan workout department s knowledge of changes in real estate conditions in our lending area to identify if possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

For homogeneous residential mortgage loans, the Company s policy is to obtain an appraisal upon the origination of the loan and an updated appraisal in the event a loan becomes 90 days delinquent. Thereafter, the appraisal is updated every two years if the loan remains in non-performing status and the foreclosure process has not been completed. Management does not typically make adjustments to the appraised value of residential loans other than to reduce the value for estimated selling costs, if applicable.

In determining the allowance for loan losses, management believes the potential for outdated appraisals has been mitigated for impaired loans and other non-performing loans. As described above, the loans are individually assessed to determine that the loan s carrying value is not in excess of the fair value of the collateral.

Based on the composition of our loan portfolio, we believe the primary risks are a decline in the general economy, a decline in real estate market values in New Jersey and surrounding states and increases in interest rates. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

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

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current operating environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Deferred Income Taxes. The Company records income taxes in accordance with ASC 740, *Income Taxes*, as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

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

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. While the Company does not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before their anticipated recovery of the remaining amortized cost basis, the Company has the ability to sell the securities. Our held-to-maturity portfolio, consisting primarily of mortgage backed securities and other debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

Management utilizes various inputs to determine the fair value of the portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices and in an illiquid market, valuation techniques, which require inputs

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that are both significant to the fair value measurement and unobservable (level 3), are used to determine fair value of the investment. Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. Management is required to use a significant degree of judgment when the valuation of investments includes inputs. The use of different assumptions could have a positive or negative effect on our consolidated financial condition or results of operations.

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

If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

Goodwill Impairment. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. For purposes of our goodwill impairment testing, we have identified a single reporting unit. We consider the quoted market price of our common stock on our impairment testing date as an initial indicator of estimating the fair value of our reporting unit. In addition, we consider our average stock price, both before and after our impairment test date, as well as market-based control premiums in determining the estimated fair value of our reporting unit. If the estimated fair value of our reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of our reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit s goodwill to its carrying amount to determine if a write-down of goodwill is required.

Valuation of Mortgage Servicing Rights (MSR). The initial asset recognized for originated MSR is measured at fair value. The fair value of MSR is estimated by reference to current market values of similar loans sold servicing released. MSR are amortized in proportion to and over the period of estimated net servicing income. We apply the amortization method for measurements of our MSR. MSR are assessed for impairment based on fair value at each reporting date. MSR impairment, if any, is recognized in a valuation allowance through charges to earnings. Increases in the fair value of impaired MSR are recognized only up to the amount of the previously recognized valuation allowance.

We assess impairment of our MSR based on the estimated fair value of those rights with any impairment recognized through a valuation allowance. The estimated fair value of the MSR is obtained through independent third party valuations through an analysis of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market s perception of future interest rate movements. The allowance is then adjusted in subsequent periods to reflect changes in the measurement of impairment. All assumptions are reviewed for reasonableness on a quarterly basis to ensure they reflect current and anticipated market conditions.

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The fair value of MSR is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions generally have the most significant impact on the fair value of our MSR. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of MSR. As interest rates rise, mortgage loan prepayments slow down, which results in an increase in the fair value of MSR. Thus, any measurement of the fair value of our MSR is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different point in time.

Stock-Based Compensation. We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with ASC 718, *Compensation-Stock Compensation* .

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

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

Executive Summary

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

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits, interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and re-pricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets. The Company s results of operations are also significantly affected by general economic conditions.

The financial services industry continues to be negatively impacted by adverse economic conditions which include continued credit losses, depressed property values in real estate markets, and a sluggish economy. The Federal Reserve continues to maintain short term interest rates at historically low levels resulting in a steep yield curve. Lower short term interest rates have helped us reduce the cost of our interest-bearing liabilities to 1.74% for the three months ended March 31, 2011 resulting in a net interest margin of 3.37% for the quarter compared to 3.06% for the three months ended March 31, 2010.

We continue to diversify our loan portfolio and expand our market share of commercial real estate and multi-family loans. Net loans increased to $8.15 billion at March 31, 2011 from $7.92 billion at December 31, 2010, an increase of 3.0%. This increase was primarily attributed to increases in the commercial real estate and multi-family loan portfolios.

During the three month period ended March 31, 2011, borrowed funds increased by $240.5 million, or 13.2% to $2.07 billion. Increasing core deposits remains one of our primary objectives. At March 31, 2011, core deposits have grown to 50.4% or $3.39 billion of total deposits for the first time.

Despite the challenging economic environment, we believe with our strong capital and liquidity positions we can continue to grow organically, pursue bank or branch acquisitions, repurchase treasury stock and enhance our franchise value.

Comparison of Financial Condition at March 31, 2011 and December 31, 2010

Total Assets. Total assets increased by $222.7 million, or 2.3%, to $9.82 billion at March 31, 2011 from $9.60 billion at December 31, 2010. This increase was largely the result of a $214.6 million increase in our net loans, including loans held for sale, to $8.17 billion at March 31, 2011 from $7.95 billion at December 31, 2010.

Net Loans Net loans, including loans held for sale, increased by $214.6 million, or 2.7%, to $8.17 billion at March 31, 2011 from $7.95 billion at December 31, 2010. This increase in loans reflects our continued focus on generating multi-family and commercial real estate loans, which was partially offset by paydowns and payoffs of loans. The loans we originate and purchase are on properties primarily in New Jersey and New York.

At March 31, 2011, total loans were $8.24 billion and included $5.0 billion in residential loans, $1.29 billion in commercial real estate loans, $1.29 billion in multi-family loans, $335.3 million in construction loans, $252.5 million in consumer and other loans, and $83.0 million in commercial and industrial loans.

We originate residential mortgage loans through our mortgage subsidiary, ISB Mortgage Co. For the three months ended March 31, 2011, ISB Mortgage Co. originated $337.8 million in residential mortgage loans of which $104.3 million were sold to third party investors and $233.5 million remained in our portfolio. We also purchased mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the three months ended March 31, 2011, we purchased loans totaling $205.8 million from these entities. We also purchase, on a bulk purchase basis, pools of mortgage loans that meet our underwriting criteria from several well-established financial institutions in the secondary market. During the three months ended March 31, 2011, we purchased $4.8 million of residential mortgage loans on a bulk purchase basis. Additionally, for the three month period ended March 31, 2011, we originated $153.7 million in multi-family loans, $91.7 million in

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commercial real estate loans, $31.2 million in commercial and industrial loans, $26.4 million in construction loans, and $23.5 million in consumer and other loans.

The Company also originates interest-only one- to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one- to four-family mortgage loans at March 31, 2011 was $530.3 million compared to $529.1 million at December 31, 2010. The ability of borrowers to repay their obligations are dependent upon various factors including the borrowers income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company s lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company s control. The Company is, therefore, subject to risk of loss.

The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

The following table sets forth non-performing assets and accruing past due loans on the dates indicated in conjunction with our quality ratios:

	March 31, 2011		December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010	
	# of loans	Amount	# of loans	Amount	# of loans	Amount	# of loans	Amount	# of loans	Amount
					(Dollars in millions)					
Accruing past due loans:										
30 to 59 days past due:										
Residential and consumer	64	$ 15.3	89	$ 17.8	83	$ 20.5	65	$ 19.0	84	$ 18.2
Construction					3	25.4			1	1.9
Multi-family			2	4.7			3	11.7	2	3.9
Commercial	6	4.8	1	0.7	2	1.9	2	0.8	4	4.5
Commercial and industrial			1	0.1	2	1.3	3	0.6	4	0.9
Total 30 to 59 days past due	70	20.1	93	23.3	90	49.1	73	32.1	95	29.4
60 to 89 days past due:										
Residential and consumer	24	4.0	39	12.1	30	5.6	40	8.0	39	10.0
Construction	4	13.8	1	7.9	1	1.4	1	2.4	6	23.6
Multi-family	7	25.0	3	12.9	2	11.9	3	0.9		
Commercial	1	0.7	1	0.5					1	0.6
Commercial and industrial			2	0.6	2	1.1	3	0.4		
Total 60 to 89 days past due	36	43.5	46	34.0	35	20.0	47	11.7	46	34.2
Total accruing past due loans	106	$ 63.6	139	$ 57.3	125	$ 69.1	120	$ 43.8	141	$ 63.6
Non-performing (non-accruing):										
Residential and consumer	281	$ 80.8	263	$ 74.7	239	$ 68.7	210	$ 60.4	199	$ 57.1
Construction	22	64.2	26	82.8	21	67.1	21	67.6	22	61.6
Multi-family	3	2.7	3	2.7	6	3.5	3	2.7	2	2.5
Commercial	11	4.7	8	3.9	8	4.6	8	4.6	9	3.5
Commercial and industrial	6	2.0	5	1.8	2	1.0	2	0.6		
Total Non-Performing Loans	323	$ 154.4	305	$ 165.9	276	$ 144.9	244	$ 135.9	232	$ 124.7

Non-performing loans to total loans	1.87%	2.08%	1.94%	1.88%	1.82%
Allowance for loan loss as a percent of non-performing loans	64.04%	54.81%	58.39%	53.23%	50.47%
Allowance for loan losses as a percent of total loans	1.20%	1.14%	1.13%	1.00%	0.92%

Total non-performing loans, defined as non-accruing loans, decreased by $11.5 million to $154.4 million at March 31, 2011 from $165.9 million at December 31, 2010. Although we have had resolution on a number of non-performing loans, the current economic environment continues to cause financial difficulties for several large construction loans. Additionally, residential loan delinquency has risen as unemployment in our lending area has remained persistently high.

At March 31, 2011 loans meeting the Company s definition of an impaired loan were primarily collateral-dependent and totaled $61.5 million of which $53.9 million of impaired loans had a specific allowance for credit losses of $7.9 million and $7.6 million of impaired loans had no specific allowance for credit losses. At December 31, 2010, loans meeting the Company s definition of an impaired loan were primarily collateral dependent and totaled $69.3 million, of which $42.8 million of impaired loans had a related allowance for credit losses of $5.0 million and $26.4 million of impaired loans had no related allowance for credit losses.

At March 31, 2011, there is one construction loan totaling $2.9 million, one commercial real estate loan totaling $2.3 million and 13 residential loans totaling $4.8 million which are deemed troubled debt restructurings.

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In addition to non-performing loans we continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans about which we have concerns as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of March 31, 2011, there are 8 multi-family loans totaling $38.5 million, 4 construction loans totaling $13.8 million and 6 commercial and industrial loans totaling $3.2 million that the Company has deemed as potential problem loans. Management is actively monitoring these loans.

The ratio of non-performing loans to total loans was 1.87% at March 31, 2011 compared to 2.08% at December 31, 2010. The allowance for loan losses as a percentage of non-performing loans was 64.04% at March 31, 2011 compared with 54.81% at December 31, 2010. At March 31, 2011 our allowance for loan losses as a percentage of total loans was 1.20% compared with 1.14% at December 31, 2010.

The following table sets forth the allowance for loan losses at March 31, 2011 and December 31, 2010 allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	March 31, 2011		December 31, 2010	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
End of period allocated to:				
Residential mortgage loans	$ 22,062	60.54%	$ 20,489	61.78%
Multi-family	11,586	15.70%	10,454	14.53%
Commercial	18,495	15.61%	16,432	15.33%
Construction loans	35,164	4.07%	34,669	4.35%
Commercial and industrial	2,765	1.01%	2,189	0.76%
Consumer and other loans	844	3.07%	866	3.25%
Unallocated	7,975		5,832	
Total allowance	$ 98,891	100.00%	$ 90,931	100.00%

The allowance for loan losses increased by $8.0 million to $98.9 million at March 31, 2011 from $90.9 million at December 31, 2010. The increase in the allowance was primarily attributable to the higher current year loan loss provision which reflects the overall growth in the loan portfolio, particularly residential and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; the high level of non-performing loans; and the continued adverse economic environment, offset partially by net charge offs of $9.0 million. These charge offs were primarily in the construction loan portfolio.

The triggering events or other circumstances that led to the significant credit deterioration resulting in these construction loan charge-offs were caused by a variety of economic factors including, but not limited to: continued deterioration of the housing and real estate markets in which we lend, significant and continuing declines in the value of real estate which collateralize our construction loans, the overall weakness of the economy in our local area, and unemployment in our lending area which has remained stubbornly high.

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The Company believes these factors were the triggering events that led to the significant credit deterioration in the loan portfolio in general and the construction loan portfolio in particular. The Company s historical loan charge-off history was immaterial prior to September 30, 2009. We have aggressively attempted to collect our delinquent loans while establishing specific loan loss reserves to properly value these loans. We record a charge-off when the likelihood of collecting the amounts specifically reserved becomes less likely, due to a variety of reasons that are specific to each loan. For example, some of the reasons that were determining factors in recording charge-offs were as follows: declining liquidity of the borrower/guarantors, prospects of selling finished inventory outside of prime selling season in real estate markets with limited activity (prime selling season of real estate is in the spring/summer months), no additional collateral that could be posted by borrowers that could be utilized to satisfy the borrower s obligations, and decisions to move forward with note sales on a select basis in order to reduce levels of non-performing loans. Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See Critical Accounting Policies.

Securities. Securities, in the aggregate, decreased by $376,000, or 0.04%, to $1.08 billion at March 31, 2011, from $1.08 billion at December 31, 2010. The decrease in the portfolio was due to paydowns, calls or maturities and was partially offset by the purchase of $106.6 million of agency issued mortgage backed securities during the three months ended March 31, 2011.

Stock in the Federal Home Loan Bank, Other Assets. The amount of stock we own in the Federal Home Loan Bank (FHLB) increased by $11.4 million from $80.4 million at December 31, 2010 to $91.7 million at March 31, 2011 as a result of an increase in our level of borrowings at March 31, 2011. Other assets decreased $2.5 million due to prepaid amortizing FDIC insurance premiums.

Deposits. Deposits decreased by $47.4 million, or 0.7%, to $6.73 billion at March 31, 2011 from $6.77 billion at December 31, 2010. While overall deposits decreased, this was attributed to the run off of higher priced certificates of deposit which were partially offset by an increase in core deposits of $58.1 million or 1.7%.

Borrowed Funds. Borrowed funds increased $240.5 million, or 13.2%, to $2.07 billion at March 31, 2011 from $1.83 billion at December 31, 2010 in order to fund our asset growth.

Stockholders Equity. Stockholders equity increased $17.8 million to $919.1 million at March 31, 2011 from $901.3 million at December 31, 2010. The increase is primarily attributed to the $18.2 million net income for three months ended March 31, 2011, $2.6 million of compensation cost related to equity incentive plans, partially offset by $2.5 million in purchases of treasury stock.

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Average Balance Sheets for the Three Months ended March 31, 2011 and 2010

The following table presents certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three months ended March 31, 2011 and 2010. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

	For Three Months Ended					
	March 31, 2011			March 31, 2010		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning cash accounts	$ 71,051	$ 17	0.10%	$ 159,194	$ 73	0.18%
Securities available-for-sale (1)	584,255	3,322	2.27%	464,673	3,203	2.76%
Securities held-to-maturity	450,168	5,778	5.13%	690,495	7,836	4.54%
Net loans (2)	8,044,401	103,481	5.15%	6,715,435	91,028	5.42%
Stock in FHLB	80,607	1,082	5.37%	74,254	928	5.00%
Total interest-earning assets	9,230,482	113,680	4.93%	8,104,051	103,068	5.09%
Non-interest earning assets	410,821			386,967		
Total assets	$ 9,641,303			$ 8,491,018		
Interest-bearing liabilities:						
Savings	$ 1,200,530	$ 2,561	0.85%	$ 876,737	$ 3,429	1.56%
Interest-bearing checking	1,011,731	1,446	0.57%	729,200	1,672	0.92%
Money market accounts	855,659	1,730	0.81%	702,781	1,962	1.12%
Certificates of deposit	3,378,093	14,251	1.69%	3,309,288	16,697	2.02%
Borrowed funds	1,828,426	15,955	3.49%	1,781,260	17,378	3.90%
Total interest-bearing liabilities	8,274,439	35,943	1.74%	7,399,266	41,138	2.22%
Non-interest bearing liabilities	457,466			237,332		
Total liabilities	8,731,905			7,636,598		
Stockholders equity	909,398			854,420		

Total liabilities and stockholders equity	$ 9,641,303			$ 8,491,018		
Net interest income		$ 77,737			$ 61,930	
Net interest rate spread (3)			3.19%			2.87%
Net interest earning assets (4)	$ 956,043			$ 704,785		
Net interest margin (5)			3.37%			3.06%
Ratio of interest-earning assets to total interest-bearing liabilities	1.12X			1.10X		

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

(2) Net loans include loans held-for-sale and non-performing loans.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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Comparison of Operating Results for the Three Months Ended March 31, 2011 and 2010

Net Income. Net income was $18.2 million for the three months ended March 31, 2011 compared to net income of $13.3 million for the three months ended March 31, 2010.

Net Interest Income. Net interest income increased by $15.8 million, or 25.5%, to $77.7 million for the three months ended March 31, 2011 from $61.9 million for the three months ended March 31, 2010. The increase was primarily due to a 48 basis point decrease in our cost of interest-bearing liabilities to 1.74% for the three months ended March 31, 2011 from 2.22% for the three months ended March 31, 2010. This was partially offset by the yield on our interest-earning assets decreasing 16 basis points to 4.93% for the three months ended March 31, 2011 from 5.09% for the three months ended March 31, 2010. Short term interest rates remaining at historically low levels resulted in many of our deposits and borrowed funds repricing downward. This had a positive impact on our net interest margin which improved by 31 basis points from 3.06% for the three months ended March 31, 2010 to 3.37% for the three months ended March 31, 2011.

Interest and Dividend Income. Total interest and dividend income increased by $10.6 million, or 10.3%, to $113.7 million for the three months ended March 31, 2011 from $103.1 million for the three months ended March 31, 2010. This increase is attributed to the average balance of interest-earning assets increasing $1.13 billion, or 13.9%, to $9.23 billion for the three months ended March 31, 2011 from $8.10 billion for the three months ended March 31, 2010. This was partially offset by the weighted average yield on interest-earning assets decreasing 16 basis points to 4.93% for the three months ended March 31, 2011 compared to 5.09% for the three months ended March 31, 2010.

Interest income on loans increased by $12.5 million, or 13.7%, to $103.5 million for the three months ended March 31, 2011 from $91.0 million for the three months March 31, 2010, reflecting a $1.33 billion, or 19.8%, increase in the average balance of net loans to $8.04 billion for the three months ended March 31, 2011 from $6.72 billion for the three months ended March 31, 2010. The increase is primarily attributed to the average balance of multi-family loans and commercial real estate loans increasing $577.9 million and $508.0 million, respectively. This activity is consistent with our strategy to diversify our loan portfolio by adding more multi-family loans and commercial real estate loans. This was partially offset by a 27 basis point decrease in the average yield on loans to 5.15% for the three months ended March 31, 2011 from 5.42% for the three months ended March 31, 2010.

Interest income on all other interest-earning assets, excluding loans, decreased by $1.8 million, or 15.3%, to $10.2 million for the three months ended March 31, 2011 from $12.0 million for the three months ended March 31, 2010. This decrease reflected a $202.5 million decrease in the average balance of all other interest-earning assets, excluding loans, to $1.19 billion for the three months ended March 31, 2011 from $1.39 billion for the three months ended March 31, 2010. In addition, the weighted average yield on interest-earning assets, excluding loans, decreased by 3 basis points to 3.44% for the three months ended March 31, 2011 compared to 3.47% for the three months ended March 31, 2010.

Interest Expense. Total interest expense decreased by $5.2 million, or 12.6%, to $35.9 million for the three months ended March 31, 2011 from $41.1 million for the three months ended March 31, 2010. This decrease is attributed to the weighted average cost of total interest-bearing liabilities decreasing 48 basis points to 1.74% for the three months ended March 31, 2011 compared to 2.22% for the three months ended March 31, 2010. This was partially offset by the average balance of total interest-bearing liabilities increasing by $875.2 million, or 11.8%, to $8.27 billion for the three months ended March 31, 2011 from $7.40 billion for the three months ended March 31, 2010.

Interest expense on interest-bearing deposits decreased $3.8 million, or 15.9% to $20.0 million for the three months ended March 31, 2011 from $23.8 million for the three months ended March 31, 2010. This decrease is attributed to a 45 basis point decrease in the average cost of interest-bearing deposits to 1.24% for the three months ended March 31, 2011 from 1.69% for the three months ended March 31, 2010 as deposit rates decreased to reflect the current interest rate environment. This was partially offset by the average balance of total interest-bearing deposits increasing $828.0 million, or 14.7% to $6.45 billion for the three months ended March 31, 2011 from $5.62 billion for the three months ended March 31, 2010. Core deposit growth represented 91.7%, or $759.2 million of the increase in the average balance of total interest-bearing deposits.

Interest expense on borrowed funds decreased by $1.4 million, or 8.2%, to $16.0 million for the three months ended March 31, 2011 from $17.4 million for the three months ended March 31, 2010. This decrease is attributed to the average cost of borrowed funds decreasing 41 basis points to 3.49% for the three months ended March 31, 2011 from 3.90% for the three months ended March 31, 2010 as some of our borrowed funds repriced at lower rates. This was partially offset by the average balance of borrowed funds increasing by $47.2 million or 2.7%, to $1.83 billion for the three months ended March 31, 2011 from $1.78 billion for the three months ended March 31, 2010.

Provision for Loan Losses. The provision for loan losses was $17.0 million for the three months ended March 31, 2011 compared to $13.1 million for the three months ended March 31, 2010. Net charge-offs were $9.0 million for the three months ended March 31, 2011 compared to $5.2 million for the three months ended March 31, 2010. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at March 31, 2011 and December 31, 2010.*

Non-interest Income. Total non-interest income was $6.5 million for the three months ended March 31, 2011 compared to $3.9 million for the three months ended March 31, 2010. The increase is attributed to a $1.9 million increase in fees and service charges to $3.5 million for the three months ended March 31, 2011. This increase is partially attributed to fees from commercial deposit and loan accounts as well as fees generated from the servicing of third party loan portfolios. In addition, there was an increase in gain on loan sales of $508,000 to $2.3 million for the three months ended March 31, 2011 as refinancing activity during the current quarter resulted in more loans being sold into the secondary market than the prior year quarter.

Non-interest Expenses. Total non-interest expenses increased by $7.9 million, or 25.9%, to $38.3 million for the three months ended March 31, 2011 from $30.4 million for the three months ended March 31, 2010. Compensation and fringe benefits increased $4.9 million as a result of staff additions primarily from the acquisition of Millennium. Additionally we increased our staff in our retail banking areas, our mortgage company and commercial real estate lending department. There was also normal merit increases and approximately $1.5 million in severance related expenses. Occupancy expense increased $1.9 million as a result of the costs associated with expanding our branch network, and increased costs due to weather related expenses. Advertising increased $505,000 due to our marketing efforts in relation to our expansion and data processing expenses increased $501,000 primarily due to increased volume of accounts.

Income Taxes. Income tax expense was $10.7 million for the three months ended March 31, 2011, representing a 37.07% effective tax rate compared to income tax expense of $9.1 million for the three months ended March 31, 2010 representing a 40.55% effective tax rate. The decrease in the effective tax rate is due to more revenue generated in states other than New Jersey.

Liquidity and Capital Resources

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

At March 31, 2011 the Company had overnight borrowings outstanding with FHLB of $271.5 million compared to $231.0 million at December 31, 2010. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company had total borrowings of $2.07 billion at March 31, 2011, an increase from $1.83 billion at December 31, 2010.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At March 31, 2011, outstanding commitments to originate loans totaled $327.0 million; outstanding unused lines of credit totaled $431.3 million; standby letters of credit totaled $5.8 million and outstanding commitments to sell loans totaled $24.0 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Time deposits scheduled to mature in one year or less totaled $2.21 billion at March 31, 2011. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Board of Directors approved a fourth share repurchase program at their January 2011 meeting, which authorizes the repurchase of an additional 10% of the Company s outstanding common stock. The fourth share repurchase program will commence immediately upon completion of the third program. Under this program, up to 10% of its publicly held outstanding shares of common stock, or 3,876,523 shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three month period ended March 31, 2011, the Company repurchased 184,277 shares of its common stock. Under the current share repurchase programs, 4,478,090 shares remain available for repurchase. As March 31, 2011, a total of 13,809,102 shares have been purchased under Board authorized share repurchase programs, of which 2,248,701 shares were allocated to fund the restricted stock portion of the Company s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

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As of March 31, 2011 the Bank exceeded all regulatory capital requirements as follows:

	As of March 31, 2011			
	Actual		Required	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total capital (to risk-weighted assets)	$ 903,255	13.6%	529,940	8.0%
Tier I capital (to risk-weighted assets)	820,274	12.4	264,970	4.0
Tier I capital (to average assets)	820,274	8.6	382,851	4.0

Off-Balance Sheet Arrangements and Contractual Obligations

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

The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2011:

Contractual Obligations	Total	Less than One Year	One-Two Years	Two-Three Years	More than Three Years
			(in thousands)		
Debt obligations (excluding capitalized leases)	$ 2,066,500	881,500	240,000	320,000	625,000
Commitments to originate and purchase loans	$ 326,990	326,990			
Commitments to sell loans	$ 23,986	23,986			

Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, $431.3 million of the borrowings are callable at the option of the lender.

Additionally, at March 31, 2011, the Company s commitments to fund unused lines of credit totaled $480.0 million. Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements. Commitments generally have a fixed expiration or other termination clauses which may or may not require a payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

In addition to the contractual obligations previously discussed, we have other liabilities and capitalized and operating lease obligations. These contractual obligations as of March 31, 2011 have not changed significantly from December 31, 2010.

In the normal course of business the Company sells residential mortgage loans to third parties. These loan sales are subject to customary representations and warranties. In the event that we are found to be in breach of these representations and warranties, we may be obligated to repurchase certain of these loans.

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For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in our December 31, 2010 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

We retain an independent, nationally recognized consulting firms who specialize in asset and liability management to complete our quarterly interest rate risk reports. We also retain a second nationally recognized consulting firm to prepare independently comparable interest rate risk reports for the purpose of validation. Both firms use a combination of analyses to monitor our

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exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value (NPV) over a range of immediately changed interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. In calculating changes in NPV, assumptions estimating loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes are used.

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

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

Quantitative Analysis. The table below sets forth, as of March 31, 2011 the estimated changes in our NPV and our net interest income that would result from the designated changes in interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points or increase of greater than 200 basis points.

	Net Portfolio Value (1),(2)			Net Interest Income (3)		
Change in Interest Rates (basis points)	Estimated NPV	Estimated Increase (Decrease) Amount	Estimated Increase (Decrease) Percent	Estimated Net Interest Income	Increase (Decrease) in Estimated Net Interest Income Amount	Increase (Decrease) in Estimated Net Interest Income Percent
	(Dollars in thousands)					
+200bp	$ 854,067	$ (353,859)	(29.3)%	$ 305,442	$ (19,105)	(5.9)%
0bp	$ 1,207,927			$ 324,547		
-100bp	$ 1,301,829	$ 93,903	7.8%	$ 332,520	$ 7,973	2.5%

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

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

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

The table set forth above indicates at March 31, 2011 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 29.3% decrease in NPV and an $19.1 million or 5.9% decrease in net interest income. In the event of a 100 basis points decrease in interest rates, we would be expected to experience a 7.8% increase in NPV and a $8.0 million or 2.5% increase in annual net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

As mentioned above, we retain two nationally recognized firms to compute our quarterly interest rate risk reports. Although we are confident of the accuracy of the results, certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data do not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the NPV and net interest income table provide an indication of our sensitivity to interest rate changes at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effects of changes in market interest rates on our NPV and net interest income.

Item 4. Controls and Procedures

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

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

Part II Other Information

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors

There have been no material changes in the Risk Factors disclosed in the Company s December 31, 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The following table reports information regarding repurchases of our common stock during quarter ended March 31, 2011 and the stock repurchase plan approved by our Board of Directors.

Period	Total Number of Shares Purchased	Average price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2011 through January 31, 2011	5,035	13.38	5,035	780,809
February 1, 2011 through February 28, 2011	176,242	13.31	176,242	4,481,090
March 1, 2011 through March 31, 2011	3,000	13.53	3,000	4,478,090
Total	184,277	$ 13.32	184,277	

(1) On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This stock repurchase program commenced upon the completion of the second program on May 7, 2008. This program has no expiration date and has 601,567 shares yet to be purchased as of March 31, 2011. On March 1, 2011, the Company announced its fourth Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 3,976,523 million shares. The new repurchase program will commence immediately upon completion of the third repurchase plan described above. This program has no expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. [Reserved]

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

3.1	Certificate of Incorporation of Investors Bancorp, Inc.*
3.2	Bylaws of Investors Bancorp, Inc.*
4	Form of Common Stock Certificate of Investors Bancorp, Inc.*
10.1	Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers*
10.2	Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers *
10.3	Investors Savings Bank Director Retirement Plan*
10.4	Investors Savings Bank Supplemental Retirement Plan*
10.5	Investors Bancorp, Inc. Supplemental Wage Replacement Plan*
10.6	Investors Savings Bank Deferred Directors Fee Plan*
10.7	Investors Bancorp, Inc. Deferred Directors Fee Plan*
10.8	Executive Officer Annual Incentive Plan**
10.9	Agreement and Plan of Merger by and Between Investors Bancorp, Inc and American Bancorp of New Jersey, Inc.***
10.10	Purchase and Assumption Agreement by and among Millennium and Investors Savings Bank****
14	Code of Ethics*****
21	Subsidiaries of Registrant*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. ******

*

Incorporated by reference to the Registration Statement on Form S-1 of Investors Bancorp, Inc. (file no. 333-125703), originally filed with the Securities and Exchange Commission on June 10, 2005.

** Incorporated by reference to Appendix A of the Company s definitive proxy statement filed with the Securities and Exchange Commission on September 26, 2008.

*** Incorporated by reference to Form 8-Ks originally filed with the Securities and Exchange Commission on December 15, 2008 and March 18, 2009.

**** Incorporated by reference to Form 8-K originally filed with the Securities and Exchange Commission on March 30, 2010.

***** Available on our website *www.isbnj.com*

****** Furnished, not filed

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SIGNATURES

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

Investors Bancorp, Inc.

Dated: May 10, 2011	/s/ Kevin Cummings Kevin Cummings President and Chief Executive Officer (Principal Executive Officer)
Dated: May 10, 2011	/s/ Thomas F. Splaine, Jr. Thomas F. Splaine, Jr. Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)