OCEANFIRST FINANCIAL CORP
Form 10-K405
March 22, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

Annual report pursuant to Section 13 of the
Securities Exchange Act of 1934, as amended

For the fiscal year ended December 31, 2001 Commission
File No.: 0-27428

OceanFirst Financial Corp.
(exact name of registrant as specified in its charter)

DELAWARE	22-3412577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

975 Hooper Avenue, Toms River, New Jersey 08753
(Address of principal executive offices)

Registrant's telephone number, including area code: (732) 240-4500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than the directors and executive officers of the registrant, was $264,782,175.70, based upon the last sales price as quoted on The Nasdaq Stock Market for March 15, 2002.

The number of shares of Common Stock outstanding as of March 15, 2002 is 9,707,489.

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report to Stockholders for the year ended December 31, 2001, is incorporated by reference into Part II of this Form 10-K.

The Proxy Statement for the 2002 Annual Meeting of Shareholders is incorporated by reference into Part III of this Form 10-K.

INDEX

		PAGE
	PART I	
Item 1.	Business	1
Item 2.	Properties	31
Item 3.	Legal Proceedings	32
Item 4.	Submission of Matters to a Vote of Security Holders	32
	PART II	
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	33
Item 6.	Selected Financial Data	33
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 8.	Financial Statements and Supplementary Data	33
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	33
	PART III	
Item 10	Directors and Executive Officers of the Registrant	33
Item 11	Executive Compensation	33
Item 12	Security Ownership of Certain Beneficial Owners and Management	34
Item 13	Certain Relationships and Related Transactions	34
	PART IV	
Item 14	Exhibits, Financial Statement Schedules and Reports on Form 8-K	34

SIGNATURES

PART I

Item 1. Business

General

OceanFirst Financial Corp. (the "Company") was organized by the Board of Directors of OceanFirst Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in connection with the Bank's conversion from mutual to stock form, which was completed on July 2, 1996. On August 18, 2000 the Bank acquired Columbia Equities, Ltd. ("Columbia"), a mortgage banking company based in Westchester County, New York in a transaction accounted for as a purchase. At December 31, 2001, the Company had consolidated total assets of $1.8 billion and total stockholders' equity of $146.7 million. The Company was incorporated under Delaware law and is a savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

The Bank was originally founded as a state-chartered building and loan association in 1902, and converted to a federal savings and loan association in 1945. The Bank became a federally chartered mutual savings bank in 1989. The Bank's principal business has been and continues to be attracting retail deposits from the general public in the communities surrounding its branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in single-family, owner-occupied residential mortgage loans within its market area. To a significantly lesser extent, the Bank invests in commercial real estate, multi-family, construction, consumer and commercial loans. The Bank also invests in mortgage-backed securities, securities issued by the U.S. Government and agencies thereof, and other investments permitted by applicable law and regulations. As a mortgage banking subsidiary of the Bank, Columbia originates, sells and services a full product line of residential mortgage loans. Columbia sells virtually all loan production into the secondary market, except that the Bank will often purchase adjustable-rate mortgage loans originated by Columbia for inclusion in its loan portfolio. The Bank also periodically sells part of its 30-year fixed rate mortgage loan production primarily due to interest rate risk considerations. Presently, servicing rights are retained in connection with most loan sales. The Bank's revenues are derived principally from interest on its loans, and to a lesser extent, interest on its investment and mortgage-backed securities. The Bank also receives income from fees and service charges on loan and deposit products and from the sale of trust and asset management services and alternative investment products, e.g., mutual funds, annuities and life insurance. The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, Federal Home Loan Bank ("FHLB") advances and other borrowings and to a lesser extent, investment maturities and proceeds from the sale of loans.

In addition to historical information, this Form 10-K may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in detail herein and in the Company's Annual Report to Stockholders.

Market Area and Competition

The Bank is a community-oriented financial institution, offering a wide variety of financial services to meet the needs of the communities it serves. The Bank conducts its business through an administrative and branch office located in Toms River, Ocean County, New Jersey, and fifteen additional branch offices, twelve located in Ocean County, two located in Monmouth County and one located in Middlesex County, New Jersey. The Bank's deposit gathering base is concentrated in the communities surrounding its offices. While its lending area extends throughout New Jersey, most of the Bank's mortgage loans are secured by properties located in Ocean County and Southern Monmouth County. Columbia's loan volume is primarily derived from the tri-state area around New York City. Columbia conducts business through an administrative and production office in Valhalla, New York and satellite production offices in Whitestone, New York; Westport, Connecticut; and Pompton Plains, New Jersey.

The Bank is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey, which is located along the central New Jersey shore. Ocean County is among the fastest growing population areas in New Jersey and has a significant number of retired residents who have traditionally provided the Bank with a stable source of deposit funds. The economy in the Bank's primary market area is based upon a mixture of service and retail trade. Other employment is provided by a variety of wholesale trade, manufacturing, federal, state and local government, hospitals and utilities. The area is also home to commuters working in New Jersey suburban areas around New York and Philadelphia.

The Bank faces significant competition both in making loans and in attracting deposits. The State of New Jersey has a high density of financial institutions, many of which are branches of significantly larger institutions which have greater financial resources than the Bank, all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, credit unions, mortgage banking companies and insurance companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions although the Bank also faces increasing competition for deposits from short-term money market funds, other corporate and government securities funds and from other financial service institutions such as brokerage firms and insurance companies.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of conventional first mortgage loans secured by one- to four-family residences. At December 31, 2001, the Bank had total loans outstanding of $1.350 billion, of which $1.110 billion or 82.2% of total loans were one- to four-family, residential mortgage loans. The remainder of the portfolio consisted of $112.3 million of commercial real estate, multi-family and land loans, or 8.3% of total loans; $9.1 million of real estate construction loans, or .7% of total loans; $67.0 million of consumer loans, primarily home equity loans and lines of credit, equaling 5.0% of total loans; and $51.8 million of commercial loans, or 3.8% of total loans. Included in total loans are $37.8 million in loans held for sale at December 31, 2001. At that same date, 43.8% of the Bank's total loans had adjustable interest rates.

The types of loans that the Bank may originate are subject to federal and state law and regulations. Interest rates charged by the Bank on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by, among other things, economic conditions, monetary policies of the federal government, including the Federal Reserve Board, and legislative tax policies.

The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	At December 31,			
	2001		2000	
	Amount	Percent of Total	Amount	Percen of Tota
Real estate:				
One- to four-family..................	$1,110,282	82.22%	$ 993,706	83.9
Commercial real estate, multi-family and land...........	112,318	8.32	89,663	7.5
Construction.........................	9,082	.67	7,973	.6
Consumer (1)...........................	67,039	4.96	62,923	5.3
Commercial loans.......................	51,756	3.83	29,687	2.5
Total loans...................	1,350,477	100.00%	1,183,952	100.0
Loans in process......................	(2,458)		(2,927)	
Deferred origination costs (fees), net..	1,048		561	
Unamoritized premium (discount), net....	1		19	
Allowance for loan losses..............	(10,351)		(9,138)	
Total loans, net..............	1,338,717		1,172,467	
Less:				
Mortgage loans held for sale.........	37,828		35,588	
Loans receivable, net.........	$1,300,889		$1,136,879	
Total loans:				
Adjustable rate......................	$ 591,724	43.82%	$ 485,660	41.0
Fixed rate...........................	758,753	56.18	698,292	58.9
	$1,350,477	100.00%	$1,183,952	100.0

	1998		1997	
	Amount	Percent of Total	Amount	Percent of Total
Real estate:				
One- to four-family..................	$869,769	89.10%	$711,548	89.57%
Commercial real estate, multi-family and land...........	42,008	4.30	25,699	3.24
Construction.........................	6,108	.63	8,748	1.10

Consumer (1)	51,785	5.31	45,417	5.72
Commercial loans	6,483	.66	2,904	.37
Total loans	976,153	100.00%	794,316	100.00%
Loans in process	(1,996)		(2,867)	
Deferred origination costs (fees), net	(608)		(1,133)	
Unamoritized premium (discount), net	62		(9)	
Allowance for loan losses	(7,460)		(6,612)	
Total loans, net	966,151		783,695	
Less:				
Mortgage loans held for sale	25,140		-	
Loans receivable, net	$941,011		$783,695	
Total loans:				
Adjustable rate	$458,809	47.00%	$475,533	59.87%
Fixed rate	517,344	53.00	318,783	40.13
	$976,153	100.00%	$794,316	100.00%

(1) Consists primarily of home equity loans and lines of credit, and to a lesser extent, loans on savings accounts, automobile and student loans.

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 2001. There was $37.8 million in loans, held for sale at December 31, 2001. The table does not include principal repayments. Principal repayments, including prepayments on total loans was $225.1 million, $178.9 million and $185.7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

	At December 31, 2001			
	One-to Four-Family	Commercial real estate, multi-family and land	Construction	Co
	(In thousands)			
One year or less	$ 34,429	$ 7,007	$9,082	$
After one year:				
More than one year to three years	72,530	24,701	-	1
More than three years to five years	77,349	28,163	-	1
More than five years to ten years	206,803	36,921	-	1
More than ten years to twenty years	384,918	6,809	-	1

More than twenty years	334,253	8,717	-	---
Total due after December 31, 2002	1,075,853	105,311	-	5
Total amount due	$1,110,282	$112,318	$9,082	$ 6
Loans in process				
Deferred origination costs, net				
Unamortized premium, net				
Allowance for loan losses				
Total loans, net				
Less: Mortgage loans held for sale				
Loans receivable, net				

4

The following table sets forth at December 31, 2001, the dollar amount of total loans receivable contractually due after December 31, 2002, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2002		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
One- to four-family	$630,976	$444,877	$1,075,853
Commercial real estate, multi-family and land	52,299	53,012	105,311
Consumer	29,914	30,011	59,925
Commercial loans	16,909	9,195	26,104
Total loans receivable	$730,098	$537,095	$1,267,193

Origination, Sale, Servicing and Purchase of Loans. The Bank's residential mortgage lending activities are conducted primarily by commissioned loan representatives in the exclusive employment of the Bank and through the Bank's branch offices. The Bank originates both adjustable-rate and fixed-rate loans. The ability to originate loans is dependent upon the relative customer demand for fixed-rate or adjustable-rate mortgage loans, which is affected by the current and expected future level of interest rates. Columbia, as a mortgage banker, sells virtually all loan production except that the Bank will often purchase adjustable rate mortgage loans originated by Columbia for inclusion in its loan portfolio. Columbia retains servicing rights for most of the loans

sold. The Bank also periodically sells part of the 30-year, fixed-rate mortgage loans that it originates. See "- Loan Servicing." At December 31, 2001 there were $37.8 million in loans categorized as held for sale.

The following table sets forth the Bank's loan originations, purchases, sales, principal repayments and loan activity for the periods indicated.

	For the Year December 31,		
	2001	2000	1999
	(In thousands)		
Total loans:			
Beginning balance	$1,183,952	$1,054,023	$ 976,153
Loans originated:			
One- to four-family	682,171	295,535	240,873
Commercial real estate, multi-family and land	36,695	45,189	28,130
Construction	13,361	8,520	6,552
Consumer	37,020	29,217	28,516
Commercial	49,291	27,404	9,780
Total loans originated	818,538	405,865	313,851
Loans purchased	-	22,271	-
Total	2,002,490	1,482,159	1,290,004
Less:			
Principal repayments	229,637	179,936	185,695
Sales of loans	421,922	117,503	49,177
Transfer to REO	454	768	1,109
Total loans	$1,350,477	$1,183,952	$1,054,023

One- to Four-Family Mortgage Lending. The Bank offers both fixed-rate and adjustable-rate mortgage loans secured by one- to four-family residences with maturities up to 30 years. Substantially all of such loans are secured by property located in the Bank's primary market area. Loan originations are typically generated by commissioned loan representatives and their contacts with the local real estate industry, members of the local communities and the Bank's existing or past customers.

At December 31, 2001, the Bank's total loans outstanding were $1.350 billion, of which $1.110 billion, or 82.2%, were one- to four-family residential mortgage loans, primarily single-family and owner-occupied. To a lesser extent, the Bank also makes mortgage loans secured by seasonal second homes. The average size of the Bank's one- to four-family mortgage loan was approximately $112,000 at December 31, 2001. The Bank currently offers a number of ARM loan programs with interest rates which adjust every one-, three-, five- or ten-years. The Bank's ARM loans generally provide for periodic (not less than 2%) and overall (not more than 6%) caps on the increase or decrease in the interest rate at any

adjustment date and over the life of the loan. The interest rate on these loans is indexed to the applicable one-, three-, five- or ten-year U.S. Treasury constant maturity yield, with a repricing margin which ranges generally from 2.75% to 3.25% above the index. The Bank also offers three-, five-, and seven -year ARM loans which operate as fixed-rate loans for three, five, or seven years and then convert to one-year ARM loans for the remainder of the term. The ARM loans are then indexed to a margin of generally 2.75% to 3.25% above the one-year U.S. Treasury constant maturity yield.

Generally, ARM loans pose credit risks different than risks inherent in fixed-rate loans, primarily because as interest rates rise, the payments of the borrower rise, thereby increasing the potential for delinquency and default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. In order to minimize risks, borrowers of one-year ARM loans with a loan-to-value ratio of 75% or less are qualified at the fully-indexed rate (the applicable U.S. Treasury index plus the margin, rounded to the nearest one-eighth of one percent), and borrowers of one-year ARM loans with a loan-to-value ratio over 75% are qualified at the higher of the fully indexed rate or the initial rate plus the 2% annual interest rate cap. The Bank does not originate ARM loans which provide for negative amortization.

The Bank's fixed-rate mortgage loans currently are made for terms from 10 to 30 years. At December 31, 2001, the Bank had commitments for the origination of fixed-rate one-to-four family mortgage loans totaling $96.9 million. The normal terms for such commitments provide for a maximum of 60 days rate lock upon receipt of a 1.0% refundable deposit charged on the mortgage amount. The Bank may periodically sell part of the 30-year, fixed-rate residential mortgage loans that it originates. The Bank retains the servicing on all loans sold. The Bank generally retains for its portfolio shorter term, fixed-rate loans with maturities of 15 years or less, and certain longer term fixed-rate loans, generally consisting of loans to facilitate the sale of REO, loans to officers, directors or employees of the Bank and "jumbo", or non-conforming loans (i.e., loans which are not eligible for purchase by FNMA or FHLMC because of loan size or credit underwriting criteria). The Bank may retain all or most of its longer term fixed rate loans after considering volume and yield and after evaluating interest rate risk and capital management considerations. The retention of 30-year fixed-rate mortgage loans may increase the level of interest rate risk carried by the Bank, as the rates on these loans will not adjust during periods of rising interest rates and the loans can be subject to substantial increases in prepayments during periods of falling interest rates.

The Bank's policy is to originate one- to four-family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property securing the loan and up to 97% of the appraised value or selling price if private mortgage insurance is obtained. Mortgage loans originated

by the Bank include due-on-sale clauses which provide the Bank with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property without the Bank's consent. Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio and the Bank has generally exercised its rights under these clauses.

Commercial Real Estate, Multi-Family and Land Lending. The Bank originates commercial real estate loans that are secured by properties generally used for business purposes such as small office buildings or retail facilities located in the Bank's primary market area. The Bank's underwriting procedures provide that

commercial real estate loans may be made in amounts up to 80% of the appraised value of the property. The Bank currently originates commercial real estate loans with terms of up to twenty-five years with fixed or adjustable rates which are indexed to a margin above the one-, three-, or five-year U.S. Treasury constant maturity yield. In reaching its decision on whether to make a commercial real estate loan, the Bank considers the net operating income of the property and the borrower's expertise, credit history, profitability and the term and quantity of leases. The Bank has generally required that the properties securing commercial real estate loans have debt service coverage ratios of at least 130%. Generally, properties securing a loan are appraised by an independent appraiser and title insurance is required on all first mortgage loans. The Bank typically requires the personal guarantee of the principal borrowers for all commercial real estate loans. The Bank's commercial real estate loan portfolio at December 31, 2001 was $112.3 million, or 8.3% of total loans. The largest commercial real estate loan in the Bank's portfolio at December 31, 2001 was a performing loan for which the Bank had an outstanding carrying balance of $5.4 million, net of a $3.4 million participation sold, secured by a first lien position on an all corporate assets including a first mortgage on commercial real estate primarily used as a health, fitness and sports facility and as a private school. The average size of the Bank's commercial real estate loans at December 31, 2001 was approximately $498,000.

The Bank also originates multi-family mortgage loans and land loans on a limited and highly selective basis. The Bank's multi-family loans and land loans at December 31, 2001, totaled $4.9 million and $2.1 million, respectively.

Loans secured by commercial real estate and multi-family residential properties are generally larger and involve a greater degree of risk than one- to four-family residential mortgage loans. Because payments on loans secured by multi-family properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the property's income and debt coverage ratio.

Construction Lending. At December 31, 2001, construction loans totaled $9.1 million, or .7%, of the Bank's total loans outstanding. The Bank originates single-family construction loans primarily on a construction/permanent basis with such loans converting to an amortizing loan following the completion of the construction phase. Most of the Bank's construction loans are made to individuals building their primary residence, while, to a lesser extent, loans are made to developers known to the Bank in order to build single-family houses for sale, which loans become due and payable over terms not exceeding 18 months. The current policy of the Bank is to charge interest rates on its construction loans which float at margins which are generally .5% to 1.5% above the prime rate (as published in the Wall Street Journal). The Bank's construction loans increase the interest rate sensitivity of its earning assets. At December 31, 2001, the Bank had 33 construction loans, with the largest loan commitment being approximately $1.7 million. The Bank may originate construction loans to individuals and contractors on approved building lots in amounts up to 75% of the appraised value of the land and the building. Once construction is

complete, the loans are converted to permanent amortizing loans with maturities similar to the Bank's other one- to four-family mortgage products. The Bank requires an appraisal of the property, credit reports, and financial statements on all principals and guarantors, among other items, for all construction loans.

Construction lending, by its nature, entails additional risks compared to one- to four-family mortgage lending, attributable primarily to the fact that funds are advanced based upon a security interest in a project which is not yet complete. As a result, construction lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower or guarantor to repay the loan. Because of these factors, the analysis of prospective construction loan projects requires an expertise that is different in significant respects from that which is required for residential mortgage lending. The Bank seeks to address these risks through its underwriting procedures.

Consumer Loans. The Bank also offers consumer loans. At December 31, 2001, the Bank's consumer loans totaled $67.0 million, or 5.0% of the Bank's total loan portfolio. Of that amount, home equity loans comprised $34.1 million, or 50.9%; home equity lines of credit comprised $31.3 million, or 46.8%; loans on savings accounts totaled $756,000, or 1.1%; and automobile, student and overdraft line of credit loans totaled $807,000, or 1.2%.

The Bank originates home equity loans secured by one- to four-family residences. These loans are originated as either adjustable-rate or fixed-rate loans with terms ranging from 10 to 20 years. Home equity loans are typically made on owner-occupied, one- to four-family residences and generally to Bank customers. These loans are subject to a 80% loan-to-value limitation, including any other outstanding mortgages or liens.

The Bank also offers a variable rate home equity line of credit which extends a credit line based on the applicant's income and equity in the home. Generally, the credit line, when combined with the balance of the first mortgage lien, may not exceed 80% of the appraised value of the property at the time of the loan commitment. Home equity lines of credit are secured by a mortgage on the underlying real estate. The Bank presently charges no origination fees for these loans, but may in the future charge origination fees for its home equity lines of credit. A borrower is required to make monthly payments of principal and interest, at a minimum of $50, based upon a 10 or 15 year amortization period. Generally, the adjustable rate of interest charged is the prime rate of interest (as published in the Wall Street Journal) plus up to 1.25%. The loans have an 18% lifetime cap on interest rate adjustments.

Commercial Lending. At December 31, 2001, commercial loans totaled $51.8 million, or 3.8% of the Bank's total loans outstanding. During 1996, a Commercial Lending group was established within the Bank. The group's primary function is to service the business communities' banking and financing needs in the Bank's primary market area. The Commercial Lending group originates both commercial real estate loans and commercial loans (including loans for working capital; fixed asset purchases; and acquisition, receivable and inventory financing). Credit facilities such as lines of credit and term loans will be used to facilitate these requests. In all cases, the Bank will review and analyze financial history and capacity, collateral value, strength and character of the principals, and general payment history of the borrower and principals in coming to a credit decision.

A well-defined credit policy has been approved by the Bank's Board of Directors. This policy discourages high risk credits, while focusing on quality underwriting, sound financial strength and close monitoring. Commercial business lending, both secured and unsecured, is generally considered to

involve a higher degree of risk than secured residential real estate lending. Risk of loss on a commercial business loan is dependent largely on the borrower's ability to remain financially able to repay the loan out of ongoing operations. If the Bank's estimate of the borrower's financial ability is inaccurate, the Bank may be confronted with a loss of principal on the loan. The Bank's largest commercial loan at December 31, 2001 had an outstanding balance of $3.1 million, secured by corporate assets and secondary liens on real estate property. The average size of the Bank's commercial loans at December 31, 2001 was approximately $108,000.

Loan Approval Procedures and Authority. The Board of Directors establishes the loan approval policies of the Bank. The Board of Directors has authorized the approval of loans secured by real estate up to $2.0 million and unsecured loans up to $1.0 million by various employees of the Bank, on a scale which requires approval by personnel with progressively higher levels of responsibility as the loan amount increases. A minimum of two employees' signatures are required to approve residential loans over $300,700. Loans secured by real estate in amounts over $2.0 million and unsecured loans over $1.0 million require approval by the Loan Committee of the Board of Directors. Loans in excess of $4.0 million require approval by the Board of Directors. Pursuant to OTS regulations, loans to one borrower generally cannot exceed 15% of the Bank's unimpaired capital, which at December 31, 2001 amounted to $18.9 million. At December 31, 2001, the Bank's maximum loan exposure to a single borrower was $10.4 million.

Loan Servicing. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making inspections as required of mortgaged premises, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The Bank also services mortgage loans for others. All of the loans currently being serviced for others are loans which have been sold by the Bank. At December 31, 2001, the Bank was servicing $534.1 million of loans for others. For the years ended December 31, 2001, 2000 and 1999, loan servicing fees, net of related amortization and write down of the loan servicing asset, totaled $(838,000), $516,000 and $403,000, respectively.

Delinquencies and Classified Assets. The Board of Directors performs a monthly review of all delinquent loan totals which includes loans sixty days or more past due, and the detail of each loan thirty days or more past due that was originated within the past year. In addition, management prepares a quarterly list of all classified loans and a narrative report of classified commercial, commercial real estate, multi-family, land and construction loans. The procedures taken by the Bank with respect to delinquencies vary depending on the nature of the loan and period of delinquency. When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. The Bank generally sends the borrower a written notice of non-payment after the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent at least 90 days or more, the Bank will commence foreclosure proceedings against any real property that secures the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or an acceptable workout accommodation is not agreed upon before the foreclosure sale, the real property securing the loan generally is sold at foreclosure.

The Bank's Internal Asset Classification Committee, which is chaired by the Vice

President of Loan Review who reports directly to the Audit Committee of the Board of Directors, reviews and classifies the Bank's assets quarterly and reports the results of its review to the Board of Directors. The Bank

classifies assets in accordance with certain regulatory guidelines established by the OTS which are applicable to all savings associations. At December 31, 2001, the Bank had $4.1 million of assets, including all REO, classified as Substandard, $2.4 million of assets classified as Doubtful and no assets classified as Loss. Loans and other assets may also be placed on a watch list as "Special Mention" assets. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "Special Mention." Special Mention assets totaled $4.9 million at December 31, 2001. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses. At December 31, 2001, the largest loan relationship classified as Special Mention was represented by two commercial mortgages with a total balance of $2.4 million secured by a first mortgage and assignments of rents on two Ocean County marinas. The largest loan relationship classified as Substandard was a one-to-four family mortgage loan with a balance of $313,000.

The Doubtful category consisted of a single commercial loan relationship with an outstanding balance of $2.4 million which became non-accrual in the first quarter of 2001. The Bank holds a participation interest in a $125 million shared national credit on a company headquartered in New Jersey which is secured by corporate assets and various commercial real estate properties. The Bank does not participate in any other shared national credits. In March 2002 the credit deteriorated further as an orderly liquidation of the Company's assets appeared less likely. As a result, the Bank charged off the entire principal balance of the loan.

Non-Accrual Loans and REO

The following table sets forth information regarding non-accrual loans and REO. The Bank had no troubled-debt restructured loans and 2 REO properties at December 31, 2001. It is the policy of the Bank to cease accruing interest on loans 90 days or more past due or in the process of foreclosure. For the years ended December 31, 2001, 2000, 1999, 1998, and 1997, respectively, the amount of interest income that would have been recognized on nonaccrual loans if such loans had continued to perform in accordance with their contractual terms was $379,000, $132,000, $52,000, $270,000, and $278,000.

	December 31,			
	2001	2000	1999	1998
	(Dollars in Thousands)			
Non-accrual loans:				
Real estate:				
One- to four-family	$3,661	$2,594	$2,401	$4,605

Commercial real estate,				
multi-family and land	-	-	362	574
Construction	-	-	-	-
Consumer	151	147	222	245
Commercial loans	2,368	182	-	-
Total	6,180	2,923	2,985	5,424
REO, net(1)	133	157	292	43
Total non-performing assets	$6,313	$3,080	$3,277	$5,467
Allowance for loan losses as a percent of total loans receivable (2)	.77%	.77%	.78%	.76
Allowance for loan losses as a percent of total non-performing loans (3)	167.49	312.62	275.48	137.54
Non-performing loans as a percent of total loans receivable(2)(3)	.46	.25	.28	.56
Non-performing assets as a percent of total assets(3)	.36	.19	.21	.35

---

(1) REO balances are shown net of related loss allowances.
(2) Total loans includes loans receivable and mortgage loans held for sale, less undisbursed loan funds, deferred loan fees and unamortized premiums and discounts.
(3) Non-performing assets consist of non-performing loans and REO. Non-performing loans consist of all loans 90 days or more past due and other loans in the process of foreclosure.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in its loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers sufficient to provide for estimated losses based on evaluating known and inherent risks in the loan portfolio based upon management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current and anticipated economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and the determination of the existence and realizable value of the collateral and guarantees securing the loan. Additions to the allowance are charged to earnings. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additional provisions for loan losses based upon information available to them at the time of their examination. Although management uses the best information available, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

The Bank's allowance consists of three elements - a specific allowance, a general allowance and an unallocated allowance. A specific allowance is

determined for all assets classified as substandard, doubtful or loss where the value of the underlying collateral can reasonably be evaluated; generally those loans secured by real estate. The Bank obtains an updated appraisal whenever a loan secured by real estate becomes 90 days delinquent. The specific allowance represents the difference between the Bank's recorded investment in the loan and the fair value of the collateral, less estimated disposal costs. A general allowance is determined for all other classified and non-classified loans. In determining the level of the general allowance, the Bank segments the loan portfolio into various risk tranches based on classification (special mention, substandard and doubtful); type of loan (mortgage, consumer and commercial); and, certain underwriting characteristics. An estimated loss factor is then applied to each risk tranche. The loss factors are determined based upon historical loan loss experience, current economic conditions, underwriting standards, internal loan review results and other factors. Finally, an unallocated allowance is maintained as a hedge against economic uncertainty, unanticipated deterioration in classified assets and other uncertainties inherent in the evaluation process.

As of December 31, 2001 and 2000, the Bank's allowance for loan losses was .77% and .77%, respectively, of total loans. The Bank had non-accrual loans of $6.2 million and $2.9 million at December 31, 2001 and 2000, respectively. The Bank will continue to monitor and modify its allowances for loan losses as conditions dictate.

12

The following table sets forth activity in the Bank's allowance for estimated loan losses for the periods set forth in the table.

	At or for the Year Ended			
	2001	2000	1999	19
	(Dollars in thousands)			
Balance at beginning of year	$ 9,138	$ 8,223	$ 7,460	$ 6,
Charge-offs:				
Real Estate:				
One- to four-family	98	77	114	
Commercial real estate, multi-family and land	-	-	58	
Construction	-	-	-	
Consumer	-	10	37	
Commercial	-	5	32	
Total	98	92	241	
Recoveries	61	22	104	

Net charge-offs	37	70	137	
Provision for loan losses	1,250	985	900	
Balance at end of year	$10,351	$ 9,138	$ 8,223	$ 7,
Ratio of net charge-offs during the year to average net loans outstanding during the year	.00%	.01%	.01%	

The following table sets forth the Bank's percent of allowance for loan losses to total allowance and the percent of loans to total loans in each of the categories listed at the dates indicated (Dollars in thousands).

	At December 31,						
	2001			2000			
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amoun
One- to four-family	$ 2,547	24.60%	82.22%	$ 2,831	30.98%	83.93%	$2,57
Commercial real estate, multi-family and land	1,867	18.03	8.32	2,018	22.08	7.57	1,35
Construction	68	.66	.67	38	.42	.67	3
Consumer	625	6.04	4.96	585	6.40	5.32	54
Commercial	2,461	23.78	3.83	1,282	14.03	2.51	62
Unallocated	2,783	26.89	-	2,384	26.09	-	3,09
Total	$10,351	100.00%	100.00%	$ 9,138	100.00%	100.00%	$8,22

	1998			1997		
	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
One- to four-family	$ 2,824	37.86%	89.10%	$2,485	37.58%	89.57%
Commercial real estate, multi-family and land	993	13.30	4.30	591	8.94	3.24
Construction	31	.42	.63	44	.67	1.10
Consumer	505	6.77	5.31	471	7.12	5.72
Commercial	220	2.95	.66	58	.88	.37
Unallocated	2,887	38.70	-	2,963	44.81	-
Total	$ 7,460	100.00%	100.00%	$ 6,612	100.00%	100.00%

14

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certificates of deposit of insured banks and savings institutions, bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly.

The investment policy of the Bank as established by the Board of Directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement the Bank's lending activities. Specifically, the Bank's policies generally limit investments to government and federal agency-backed securities and other non-government guaranteed securities, including corporate debt obligations, that are investment grade. The Bank's policies provide that all investment purchases must be approved by two officers (either the Vice President/Treasurer, Executive Vice President/Chief Financial Officer or the President and Chief Executive Officer) and be ratified by the Board of Directors.

Investment and mortgage-backed securities identified as held to maturity are carried at cost, adjusted for amortization of premium and accretion of discount,

which are recognized as adjustments to interest income. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Bank has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy. Such securities are carried at fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders' equity. At December 31, 2001, all of the Bank's investment and mortgage-backed securities were classified as available for sale.

Mortgage-backed Securities. Mortgage-backed securities represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which, in general, are passed from the mortgage originators, through intermediaries that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such intermediaries may be private issuers, or agencies including FHLMC, FNMA and GNMA that guarantee the payment of principal and interest to investors. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages can be composed of either fixed- or ARM loans.

The actual maturity of a mortgage-backed security varies, depending on when the mortgagors repay or prepay the underlying mortgages. Prepayments of the underlying mortgages may shorten the life of the security, thereby affecting its yield to maturity and the related market value of the mortgage-backed security. The prepayments of the underlying mortgages depend on many factors, including the type of mortgages, the coupon rates, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages, general levels of market interest rates, and general economic conditions. GNMA mortgage-backed securities that are backed by assumable Federal Housing Authority ("FHA") or the Department of Veterans Affairs ("VA") loans generally have a longer life than conventional non-assumable loans underlying FHLMC and FNMA mortgage-backed securities. During periods of falling mortgage interest rates, prepayments generally increase, as opposed to periods of increasing interest rates when prepayments generally decrease. If the interest rate of

underlying mortgages significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The Bank has significant investments in mortgage-backed securities and has utilized such investments to complement its mortgage lending activities. The Bank invests in a large variety of mortgage-backed securities, including ARM, balloon and fixed-rate mortgage-backed securities, the majority of which are directly insured or guaranteed by FHLMC, GNMA and FNMA. At December 31, 2001, mortgage-backed securities totaled $233.3 million, or 13.2% of total assets, including $156.2 million in collateralized mortgage obligations ("CMOs"), all of which were classified as available for sale. CMOs are securities created by segregating or portioning cash flows from mortgage pass-through securities or from pools of mortgage loans. CMOs provide a broad range of mortgage investment vehicles by tailoring cash flows from mortgages to meet the varied risk and return preferences of investors. These securities enable the issuer to "carve

up" the cash flows from the underlying securities and thereby create multiple classes of securities with different maturity and risk characteristics. The Bank invests in U.S. Government and agency-backed CMOs and privately issued CMOs, all of which have agency-backed collateral.

CMOs issued by FHLMC, FNMA, GNMA and private interests amounted to $45,338,000, $22,254,000, $24,328,000 and $64,262,000, respectively, at December 31, 2001 and $39,458,000, $16,303,000, $7,581,000 and $85,067,000, respectively, at December 31, 2000. The privately issued CMOs have generally been underwritten by large investment banking firms with the timely payment of principal and interest on these securities supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit or subordination techniques. Substantially all such securities are triple "A" rated by one or more of the nationally recognized securities rating agencies. The privately-issued CMOs are subject to certain credit-related risks normally not associated with U.S. Government Agency CMOs. Among such risks is the limited loss protection generally provided by the various forms of credit enhancements as losses in excess of certain levels are not protected. Furthermore, the credit enhancement itself is subject to the creditworthiness of the enhancer. Thus, in the event a credit enhancer does not fulfill its obligations, the CMO holder could be subject to risk of loss similar to a purchaser of a whole loan pool. Management believes that the credit enhancements are adequate to protect the Company from losses and has, therefore, not provided an allowance for losses on its privately-issued CMOs.

At December 31, 2001 the Bank had outstanding privately-issued CMOs from two issuers, Residential Funding Corp. and Countrywide Home Loans, Inc., each in excess of ten percent of stockholders' equity. The aggregate book and market values of privately-issued CMOs issued by Residential Funding Corp. and held by the Bank totaled $24.1 million and $24.5 million, respectively. The aggregate book and market values of privately issued CMOs issued by Countrywide Home Loans, Inc. and held by the Bank totaled $15.9 million and $16.2 million, respectively.

The following table sets forth the Bank's mortgage-backed securities activities for the periods indicated.

	For the Year Ended December 31,		
	2001	2000	1999
		(In thousands)	
Beginning balance	$268,042	$346,182	$ 381,840
Mortgage-backed securities Purchased	49,006	5,059	97,251
Less: Principal repayments	(89,916)	(58,901)	(120,460
Mortgage-backed securities sold	-	(31,915)	-
Amortization of premium	(759)	(462)	(1,145

Change in net unrealized gain (loss) on mortgage-backed securities available for sale	6,929	8,079	(11,304
Ending balance	$233,302	$268,042	$ 346,182

The following table sets forth certain information regarding the amortized cost and market value of the Bank's mortgage-backed securities at the dates indicated.

	At December 31,				
	2001		2000		
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortize Cost
	(In thousands)				
Mortgage-backed securities:					
FHLMC	$ 29,650	$ 30,383	$ 48,888	$ 48,784	$ 65,111
FNMA	22,646	23,088	37,172	37,009	48,424
GNMA	23,229	23,649	34,092	33,840	41,467
CMOs	153,293	156,182	150,335	148,409	201,704
Total mortgage-backed securities	$ 228,818	$233,302	$ 270,487	$268,042	$356,706

17

Investment Securities. The following table sets forth certain information regarding the amortized cost and market values of the Bank's investment securities at the dates indicated.

	At December 31,				
	2001		2000		
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortize Cost
	(In thousands)				
Investment securities:					
U.S. Government and agency obligations	$ 1,200	$ 1,198	$ 24,469	$ 24,373	$ 40,96

State and municipal obligations	5,561	5,313	5,561	5,156	5,76
Corporate debt securities	75,199	68,253	75,124	69,616	75,05
Equity investments	3,849	5,253	3,757	4,391	3,66
Total investment securities	$ 85,809	$ 80,017	$ 108,911	$ 103,536	$ 125,44

18

The table below sets forth certain information regarding the amortized cost, weighted average yields and contractual maturities, excluding scheduled principal amortization, of the Bank's investment and mortgage-backed securities, excluding equity securities, as of December 31, 2001. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	At December 31, 2001		
	One Year or Less	More than One Year to Five Years	More than Years to T
	Amortized Cost	Amortized Cost	Amortized
	Dollars in thousands)		
Investment securities:			
U.S. Government and agency obligations ...	$ -	$ 1,200	$ -
State and municipal obligations (1)	-	-	-
Corporate debt securities (2)	-	-	-
Total investment securities	$ -	$ 1,200	$ -
Weighted average yield	-	2.77%	-
Mortgage-backed securities:			
FHLMC	$ 660	$ 15,791	$ 174
FNMA	1,009	10,657	1,240
GNMA	-	323	37
CMOs	-	-	-
Total mortgage-backed securities	$ 1,669	$ 26,771	$ 1,451
Weighted average yield	5.27%	6.27%	7.27%

Total

	Amortized Cost	Market Value
Investment securities:		
U.S. Government and agency obligations .	$ 1,200	$ 1,198
State and municipal obligations (1)	5,561	5,313
Corporate debt securities (2)	75,199	68,253
Total investment securities	$ 81,960	$ 74,764
Weighted average yield	3.36%	
Mortgage-backed securities:		
FHLMC	$ 29,650	$ 30,383
FNMA	22,646	23,088
GNMA	23,229	23,649
CMOs	153,293	156,182
Total mortgage-backed securities	$ 228,818	$233,302
Weighted average yield	6.38%	

---

(1) Tax equivalent yield.
(2) All of the Bank's corporate debt securities carry interest rates which adjust to a spread over Libor on a quarterly basis.

Sources of Funds

General. Deposits, loan and MBS repayments and prepayments, proceeds from sales of loans, investment maturities, cash flows generated from operations and FHLB advances and other borrowings are the primary sources of the Bank's funds for use in lending, investing and for other general purposes.

Deposits. The Bank offers a variety of deposit accounts with a range of interest rates and terms. The Bank's deposits consist of money market accounts, savings accounts, NOW accounts, non-interest bearing accounts and time deposits. For the year ended December 31, 2001, time deposits constituted 54.0% of total average deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. The Bank's deposits are obtained predominantly from the areas in which its branch offices are located. The Bank relies on its community banking focus stressing customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Bank's ability to attract and retain deposits. The Bank does not use brokers to obtain deposits.

The following table presents the deposit activity of the Bank for the periods indicated:

	For the Year Ended December 31,		
	2001	2000	1999
	(In thousands)		
Net deposits (withdrawals)	$(34,646)	$ 5,294	$(14,480)
Interest credited on deposit accounts	39,501	41,944	36,179
Total increase in deposit accounts	$ 4,855	$47,238	$ 21,699

At December 31, 2001, the Bank had $82.5 million in time deposits in amounts of $100,000 or more maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less	$36,818	3.46%
Over three through six months	11,776	4.16
Over six through 12 months	16,954	4.20
Over 12 months	16,950	5.22
Total	$82,498	4.07

The following table sets forth the distribution of the Bank's average deposit accounts for the periods indicated and the weighted average interest rates at the end of each period, on each category of deposits presented.

	At or F			
	2001			
	Average Balance	Percent of Total Average Deposits	Weighted Average Yield	Aver Bala
Money market deposit accounts............	$ 73,966	6.61%	1.86%	$ 76
Savings accounts.........................	178,335	15.93	1.54	170
NOW accounts.............................	198,186	17.70	1.60	130

Non-interest-bearing accounts	64,330	5.74	-	43
Total	514,817	45.98	1.41	420
Time deposits:				
Six months or less	112,608	10.06	2.86	91
Over 6 through 12 months	108,507	9.69	3.17	122
Over 12 through 24 months	139,870	12.49	4.50	201
Over 24 months	137,360	12.27	5.98	141
IRA/KEOGH	106,489	9.51	5.04	110
Total time deposits	604,834	54.02	4.39	667
Total average deposits	$1,119,651	100.00%	2.88%	$1,088

	1999		
	Average Balance	Percent of Total Average Deposits	Weighted Average Yield
Money market deposit accounts	$ 77,478	7.40%	2.61%
Savings accounts	173,798	16.60	2.03
NOW accounts	111,356	10.63	1.59
Non-interest-bearing accounts	26,953	2.58	-
Total	389,585	37.21	1.88
Time deposits:			
Six months or less	91,114	8.70	4.54
Over 6 through 12 months	118,907	11.36	4.73
Over 12 through 24 months	231,022	22.06	5.04
Over 24 months	109,341	10.44	6.02
IRA/KEOGH	107,152	10.23	5.47
Total time deposits	657,536	62.79	5.18
Total average deposits	$1,047,121	100.00%	3.94%

Borrowings

From time to time the Bank has obtained term advances from the Federal Home Loan Bank of New York ("FHLB-NY") as an alternative to retail deposit funds and may do so in the future as part of its operating strategy. FHLB-NY term advances may also be used to acquire certain other assets as may be deemed appropriate for investment purposes. These term advances are collateralized primarily by certain of the Bank's mortgage loans and investment and mortgage-backed securities and

secondarily by the Bank's investment in capital stock of the FHLB-NY. In addition, the Bank has an available overnight line of credit with the FHLB-NY for $50.0 million which expires November 25, 2002. The Bank also has available from the FHLB-NY a one-month, overnight repricing line of credit for $50.0 million which also expires on November 25, 2002. When utilized, both lines carry a floating interest rate of 10 basis points over the current federal funds rate and are secured by the Bank's mortgage loans, mortgage-backed securities, U.S. Government and agency securities and FHLB-NY stock. The maximum amount that the FHLB-NY will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the OTS and the FHLB-NY. At December 31, 2001, the Bank had $80.0 million in outstanding borrowings against the FHLB-NY lines of credit and $192.0 million under various term advances.

The Bank also borrows funds using securities sold under agreements to repurchase. Under this form of borrowing specific U.S. Government agency and/or mortgage-backed securities are pledged as collateral to secure the borrowing. These pledged securities are not under the Bank's control. At December 31, 2001, the Bank had borrowed $212.3 million through securities sold under agreements to repurchase. (See note 10 to the consolidated financial statements in the 2001 Annual Report to Stockholders.)

Subsidiary Activities

The Bank owns three subsidiaries - Columbia Equities, Ltd., OceanFirst Services LLC and OceanFirst REIT Holdings, Inc.

Columbia Equities, Ltd. was acquired by the Bank on August 18, 2000 and operates as a mortgage banking subsidiary based in Westchester County, New York. Columbia originates, sells and services a full product line of residential mortgage loans primarily in New York, New Jersey and Connecticut. Loans are originated through three retail branches and to a lesser extent, a web site and a network of independent mortgage brokers. Columbia sells virtually all loan production into the secondary market or, to a lesser extent, the Bank. Presently, servicing rights are retained in connection with most loan sales.

OceanFirst Services LLC was originally organized in 1982 under the name Dome Financial Services, Inc. to engage in the sale of all-savers life insurance. Prior to 1998 the subsidiary was inactive, however, in 1998, the Bank began to sell non-deposit investment products (annuities, mutual funds and insurance) through a third party marketing firm to Bank customers through this subsidiary, recognizing fee income from such sales.

OceanFirst REIT Holdings, Inc. was established in 2001 and acts as the holding company for OceanFirst Realty Corp. OceanFirst Realty Corp. was established in 1997 and is intended to qualify as a real estate investment trust, which may, among other things, be utilized by the Company to raise capital in the future. Upon formation of OceanFirst Realty Corp., the Bank transferred $668 million of mortgage loans to this subsidiary.

Personnel

As of December 31, 2001, the Bank had 366 full-time employees and 80 part-time employees. The employees are not represented by a collective bargaining unit and the Bank considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

General

As a savings and loan holding company, the Company is required by federal law to file reports with, and otherwise comply with, the rules and regulations of the OTS. The Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the deposit insurer. The Bank is a member of the Federal Home Loan Bank System and, with respect to deposit insurance, of the Savings Association Insurance Fund ("SAIF") managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or the Congress, could have a material adverse impact on the Company, the Bank and their operations. Certain of the regulatory requirements applicable to the Bank and to the Company are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company.

Holding Company Regulation

The Company is a nondiversified unitary savings and loan holding company within the meaning of federal law. Under prior law, a unitary savings and loan holding company, such as the Company was not generally restricted as to the types of business activities in which it may engage, provided that the Bank continued to be a qualified thrift lender. See "Federal Savings Institution Regulation - QTL Test." The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies as defined under the Gramm-Leach-Bliley Act or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, such as the Company, so long as the Bank continues to comply with the QTL Test. The Company qualifies for the grandfather provision. Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the qualified thrift lender test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would generally be limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the OTS, and certain activities authorized by OTS regulation.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or

savings and loan holding company, without prior written approval of the OTS and

from acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS considers the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Acquisition of the Company. Under the Federal Change in Control Act ("CIBCA"), a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the Office of Thrift Supervision has found that the acquisition will not result in a change of control of the Company. Under the CIBCA, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Federal Savings Institution Regulation

Business Activities. The activities of federal savings institutions are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, many types of lending authority for federal associations, e.g., commercial, non-residential real property loans and consumer loans, are limited to a specified percentage of the institution's capital or assets.

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMEL financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is defined as

common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. For the present time, the OTS has deferred implementation of the interest rate risk capital charge. At December 31, 2001, the Bank met each of its capital requirements.

The following table presents the Bank's capital position at December 31, 2001. The Bank met each of its capital requirements at that date.

				Capital
	Actual Capital	Required Capital	Excess Amount	Actual Percent
	(Dollars in thousands)			
Tangible....................	$ 125,952	$ 26,396	$ 99,556	7.16%
Core (Leverage).............	125,952	52,791	73,161	7.16
Risk-based..................	136,223	83,894	52,329	12.99

Prompt Corrective Regulatory Action. The OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a

savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Insurance of Deposit Accounts. The Bank is a member of the SAIF. The FDIC maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned.

Assessment rates for SAIF member institutions are determined semiannually by the FDIC and currently range from zero basis points for the healthiest institutions to 27 basis points for the riskiest.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF. During 2001, FICO payments for SAIF members approximated 1.85 basis points.

The Bank's assessment rate for fiscal 2001 was zero basis points and the premium paid for this period was $208,000, all of which related to FICO bonds. The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At December 31, 2001, the Bank's limit on loans to one borrower was $18.9 million, and the Bank's largest aggregate outstanding balance of loans to one borrower was $10.4 million.

QTL Test. The HOLA requires savings institutions to meet a qualified thrift

----
lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least nine months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. As of December 31, 2001, the Bank maintained in excess of 100% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (i.e., generally, examination ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with OTS. If an application is not required, the institution must still provide prior notice to OTS of the capital distribution if, like the Bank, it is a subsidiary of a holding company. In the event the Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be

permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The assessments, paid on a semi-annual basis, are based on the institution's size, supervisory condition and complexity of operations. The assessments paid by the Bank for the fiscal year ended December 31, 2001 totaled $280,000.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The

purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is also governed by federal law. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment, except for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank ("FHLB") System, which consists of 12 regional FHLBs. Each FHLB provides member institutions with a central credit facility. The Bank, as a member of the FHLB of New York ("FHLB-NY"), is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its borrowings from the FHLB-NY, whichever is greater. The Bank was in compliance with this requirement with an investment in FHLB-NY stock at December 31, 2001 of $23.6 million.

The FHLBs are required to provide funds to cover certain obligations on bonds issued to fund the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, the Bank's net interest income would likely also be reduced. Recent legislation has changed the structure of the Federal Home Loan Banks funding obligations for insolvent thrifts, revised the capital structure of the Federal Home Loan Banks and implemented entirely voluntary membership for Federal Home Loan Banks. Management cannot predict the effect that these changes may have with respect to its Federal Home Loan Bank membership.

Federal Reserve System

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $41.3 million; a 10% reserve ratio is applied above $41.3 million. The first $5.7 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The amounts are adjusted annually. The Bank complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank report their income on a calendar year basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company. The Bank has not been audited by the IRS in over 10 years. For its 2001 taxable year, the Bank is subject to a maximum federal income tax rate of 35.0%.

Bad Debt Reserves. For fiscal years beginning prior to December 31, 1995, thrift institutions which qualified under certain definitional tests and other conditions of the Internal Revenue Code of 1986 (the "Code") were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans (generally secured by interests in real property improved or to be improved) under (i) the Percentage of Taxable Income Method (the "PTI Method") or (ii) the Experience Method. The reserve for nonqualifying loans was computed using the Experience Method.

The Small Business Job Protection Act of 1996 (the "1996 Act"), which was enacted on August 20, 1996, requires savings institutions to recapture (i.e., take into taxable income) certain portions of their accumulated bad debt reserves. The 1996 Act repeals the reserve method of accounting for bad debts

effective for tax years beginning after 1995. Thrift institutions that would be treated as small banks are allowed to utilize the Experience Method applicable to such institutions, while thrift institutions that are treated as large banks (those generally exceeding $500 million in assets) are required to use only the specific charge-off method. Thus, the PTI Method of accounting for bad debts is no longer available for any financial institution.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in method of accounting, initiated by the taxpayer, and having been made with the consent of the IRS. Any Section 481(a) adjustment required to be taken into income with respect to such change generally will be taken into income ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995, subject to the residential loan requirement.

Under the residential loan requirement provision, the recapture required by the 1996 Act will be suspended for each of two successive taxable years, beginning with the Bank's current taxable year, in which the Bank originates a minimum of certain residential loans based upon the average of the principal amounts of such loans made by the Bank during its six taxable years preceding its current taxable year.

Under the 1996 Act, for its current and future taxable years, the Bank is not permitted to make additions to its tax bad debt reserves. In addition, the Bank is required to recapture (i.e., take into taxable income) over a six year period the excess of the balance of its tax bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987. Since the Bank satisfied the residential loan requirement provision for 1996 and 1997 as described above, the six year recapture period became effective for the 1998 tax year. As a result of such recapture, the Bank will incur an additional tax liability of approximately $2.3 million. The Bank has accrued for this liability in the consolidated financial statements.

Distributions. Under the 1996 Act, if the Bank makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to the Company, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. The excess of the bad debt reserve deduction using

the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. Only 90% of AMTI can be offset by net operating loss carryovers of which the Bank currently has none. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). The Bank does not expect to be subject to the AMTI.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank own more than 20% of the stock of a corporation distributing a dividend then 80% of any dividends received may be deducted.

State and Local Taxation

New Jersey Taxation. The Bank files New Jersey income tax returns. For New Jersey income tax purposes, savings institutions are presently taxed at a rate equal to 3% of taxable income. For this purpose, "taxable income" generally means federal taxable income, subject to certain adjustments (including addition of interest income on State and municipal obligations).

The Company is required to file a New Jersey income tax return because it will be doing business in New Jersey. For New Jersey tax purposes, regular corporations are presently taxed at a rate equal to 9% of taxable income. For this purpose, "taxable income" generally means Federal taxable income, subject to certain adjustments (including addition of interest income on state and municipal obligations). However, if the Company meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company at a tax rate presently equal to 2.25% (25% of 9%) of taxable income.

New York Taxation. Columbia is subject to New York State income tax at a rate of 9.95% (including a commuter transportation surcharge). The tax is measured by "entire net income" which is Federal taxable income with adjustments.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

Item 2. Properties

The Bank conducts its business through its administrative office, which includes a branch office, and 15 other full service offices located in Ocean, Monmouth and Middlesex Counties and through the administrative and loan production offices of Columbia. The Company believes that the Bank's current facilities will be adequate to meet the present and immediately foreseeable needs of the

Bank and the Company.

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration(2)	Net or (
Administrative Office:				
975 Hooper Avenue Toms River, New Jersey 08754	Owned	1995	--	
Branch Offices:				
Adamston: 385 Adamston Road Brick, New Jersey 08723	Leased	1999	07/31/09	
Berkeley: Holiday City Plaza 730 Jamaica Boulevard Toms River, New Jersey 08757	Leased	1984	11/30/04	
Brick: 321 Chambers Bridge Road Brick, New Jersey 08723	Owned	1960	--	
Concordia: 1 Concordia Shopping Mall Box 3 Cranbury, New Jersey 08512	Leased	1985	07/31/05	
Route 37 West: 55 Bananier Drive Toms River, New Jersey 08755	Leased	2001	10/31/05	
Lacey: 900 Lacey Road Forked River, New Jersey 08731	Leased	1997	01/31/18	
Lake Ridge: 147 Route 70, Suite 1 Toms River, New Jersey 08755	Leased	1998	01/31/18	
Manahawkin 205 Route 72 West Manahawkin, NJ 08050	Leased	2001	10/31/11	
Pavilion: 70 Brick Boulevard Brick, New Jersey 08723	Leased	1989	09/30/18	
Point Pleasant Beach: 701 Arnold Avenue Point Pleasant, New Jersey 08742	Owned	1937	--	
Point Pleasant Boro: 2400 Bridge Avenue	Owned	1971	--	

Point Pleasant, New Jersey 08742

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration(2)	Net Bo or Lea at D
				(Dol
Route 88: 3100 Route 88 Point Pleasant, New Jersey 08742	Leased	2000	03/31/07	
Spring Lake Heights: 2401 Route 71 Spring Lake Heights, New Jersey 07762	Leased	1999	10/31/09	
Wall Township: 2445 Route 34 Manasquan, New Jersey 08736	Leased	1999	02/28/10	
Whiting: Whiting Shopping Center P. O. Box 20 Whiting, New Jersey 08759	Leased	1983	10/31/02	
Other Properties (1): 730 Brick Boulevard Brick, New Jersey 08723	Owned	1986	--	
Columbia Equities, Ltd.:				
400 Columbus Avenue Valhalla, New York 10595	Leased	2001	07/01/12	
141-07 20th Avenue Whitestone, New York 11357	Leased	1999	09/30/02	

(1) The property was formerly utilized by the Bank, was subsequently subleased and is now vacant.
(2) The Company may also hold options to renew leases for additional terms upon expiration of the current lease.

Item 3. Legal Proceedings

The Company and the Bank are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such other routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information relating to the market for Registrant's common equity and related stockholder matters appears under "Shareholder Information" on the Inside Back Cover in the Registrant's 2001 Annual Report to Stockholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The above-captioned information appears under "Selected Consolidated Financial and Other Data of the Company" in the Registrant's 2001 Annual Report to Stockholders on pages 13 and 14 is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 2001 Annual Report to Stockholders on pages 15 through 25 and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The above captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Management of Interest Rate Risk" in the Registrant's 2001 Annual Report to Stockholders on pages 16 through 18.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of OceanFirst Financial Corp. and its subsidiary, together with the report thereon by KPMG LLP appears in the Registrant's 2001 Annual Report to Stockholders on pages 26 through 41 and are incorporated herein by reference.

Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information relating to Directors and Executive Officers of the Registrant is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002, at pages 4 through 6.

Item 11. Executive Compensation

The information relating to directors' compensation and executives' compensation is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002, at pages 7 through 8 and pages 12 through 16 (excluding the Executive Compensation Committee Report and Stock Performance Graph).

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002, at pages 3 and 5 through 6.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002, at page 16.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as a part of this report:

(1) Consolidated Financial Statements of the Company are incorporated by reference to the following indicated pages of the 2001 Annual Report to Stockholders.

	PAGE
Independent Auditors' Report	41
Consolidated Statements of Financial Condition at December 31, 2001 and 2000	26
Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999	27
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999	28
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	29
Notes to Consolidated Financial Statements for the Years Ended December 31, 2001, 2000 and 1999	30-40

The remaining information appearing in the 2001 Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

2.1	Stock Purchase Agreement by and among Richard S. Pardes (the sole stockholder of Columbia Equities, Ltd.) and Columbia Equities, Ltd. and OceanFirst Bank as buyer, dated June 27, 2000 (without exhibits) (2)
3.1	Certificate of Incorporation of OceanFirst Financial Corp. (1)
3.2	Bylaws of OceanFirst Financial Corp.(1)
4.0	Stock Certificate of OceanFirst Financial Corp.(1)
10.1	Form of OceanFirst Bank Employee Stock Ownership Plan (1)
10.1(a)	Amendment to OceanFirst Bank Employee Stock Ownership Plan (3)
10.2	OceanFirst Bank Employees' Savings and Profit Sharing Plan (1)
10.3	OceanFirst Bank 1995 Supplemental Executive Retirement Plan (1)
10.4	OceanFirst Bank Deferred Compensation Plan for Directors (1)
10.5	OceanFirst Bank Deferred Compensation Plan for Officers (1)
10.7	OceanFirst Bank Performance Achievement Awards Program (1)
10.8	Amended and Restated OceanFirst Financial Corp. 1997 Incentive Plan (4)
10.9	Form of Employment Agreement between OceanFirst Bank and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino (1)
10.10	Form of Employment Agreement between OceanFirst Financial Corp. and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino (1)
10.11	Form of Change in Control Agreement between OceanFirst Bank and certain executive officers, including John K. Kelly, Robert M. Pardes and Karl E. Reinheimer (1)
10.12	Form of Change in Control Agreement between OceanFirst Financial Corp. and certain executive officers, including John K. Kelly, Robert M. Pardes and Karl E. Reinheimer (1)
10.13	2000 Stock Option Plan (5)
10.14	Form of Employment Agreement between Columbia Equities, Ltd. and Robert M. Pardes (6).
13.0	Portions of 2001 Annual Report to Stockholders (filed herewith)
21.0	Subsidiary information is incorporated herein by reference to "Part I - Subsidiaries"
23.0	Consent of KPMG LLP (filed herewith)

(b) Reports on Form 8-K

None.

____

(1) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.

(2) Incorporated herein by reference from the Exhibits to Form 8-K filed on June 28, 2000.

(3) Incorporated herein by reference from the Exhibits to Form 10-K filed on March 25, 1997.

(4) Incorporated herein by reference from Form 14-A Definitive Proxy Statement filed on March 19, 1998.

(5) Incorporated herein by reference from Form 14-A Definitive Proxy Statement filed on March 17, 2000.

(6) Incorporated herein by reference from the Exhibits to Form 10-K filed on March 23, 2001.

CONFORMED SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

OceanFirst Financial Corp.

By: /s/ John R. Garbarino

John R. Garbarino
Chairman of the Board,
President and
Chief Executive Officer and
Director

Date: March 11, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Name	Date
/s/ John R. Garbarino John R. Garbarino Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 11, 2002
/s/ Michael J. Fitzpatrick Michael J. Fitzpatrick Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	March 11, 2002
/s/ Thomas F. Curtin Thomas F. Curtin Director	March 11, 2002
/s/ Carl Feltz, Jr. Carl Feltz, Jr. Director	March 11, 2002

/s/ John W. Chadwick	March 11, 2002

John W. Chadwick
Director

/s/ Donald E. McLaughlin March 11, 2002

Donald E. McLaughlin
Director

/s/ Diane F. Rhine March 11, 2002

Diane F. Rhine
Director

/s/ Frederick E. Schlosser March 11, 2002

Frederick E. Schlosser
Director

/s/ James T. Snyder March 11, 2002

James T. Snyder
Director

/s/ John E. Walsh March 11, 2002

John E. Walsh
Director