Investors Bancorp Inc
Form 10-K
March 03, 2014
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SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 2013 or

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

For the transition period from to
Commission File No. 000-51557

Investors Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3493930 (I.R.S. Employer Identification Number)
101 JFK Parkway, Short Hills, New Jersey (Address of Principal Executive Offices)	07078 Zip Code

(973) 924-5100
(Registrant's telephone number)
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share (Title of Class)	The NASDAQ Stock Market LLC (Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

As of February 21, 2014, the registrant had 144,700,693 shares of common stock, par value $0.01 per share, issued and 139,604,262 shares outstanding, of which 85,701,807 shares, or 61.39%, were held by Investors Bancorp, MHC, the registrant's mutual holding company.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2013, as reported by the NASDAQ Global Select Market, was approximately $858.2 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2014 Annual Meeting of Stockholders of the Registrant (Part III).

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PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements may be identified by the use of the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “sh and similar terms and phrases, including references to assumptions.

Forward-looking statements are based on various assumptions and analyses made by us in light of our management’s experience and its perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond our control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins or affect the value of our investments;
- changes in deposit flows, loan demand or real estate values may adversely affect our business;
- changes in accounting principles, policies or guidelines may cause our financial condition to be perceived differently;
- general economic conditions, either nationally or locally in some or all areas in which we do business, or conditions in the real estate or securities markets or the banking industry may be less favorable than we currently anticipate;
- legislative or regulatory changes may adversely affect our business;
- technological changes may be more difficult or expensive than we anticipate;
- success or consummation of new business initiatives may be more difficult or expensive than we anticipate;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may be determined adverse to us or may delay the occurrence or non-occurrence of events longer than we anticipate;
- the risks associated with continued diversification of assets and adverse changes to credit quality;
- difficulties associated with achieving expected future financial results; and
- the risk of continued economic slowdown that would adversely affect credit quality and loan originations.

We have no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

As used in this Form 10-K, “we,” “us” and “our” refer to Investors Bancorp, Inc. and its consolidated subsidiaries, principally Investors Bank.

PART I

ITEM 1. BUSINESS

Investors Bancorp, Inc.

Investors Bancorp, Inc. (the “Company” or "Investors Bancorp") is a Delaware corporation that was organized on January 21, 1997 for the purpose of being a holding company for Investors Bank (the “Bank”), a New Jersey chartered savings bank. On October 11, 2005, the Company completed its initial public stock offering in which it sold 51,627,094 shares, or 43.74% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by the Investors Bank Employee Stock Ownership Plan (the “ESOP”). Upon completion of the initial public offering, Investors Bancorp, MHC (the “MHC”), the Company’s New Jersey chartered mutual holding company parent, held 64,844,373 shares, or 54.94% of the Company’s outstanding common stock (shares restated to include shares issued in a business combination subsequent to initial public offering). Additionally, the Company contributed $5,163,000 in cash and issued 1,548,813 shares of common stock, or 1.32% of its outstanding shares, to the Investors Bank Charitable Foundation.

On December 17, 2013, the Boards of Directors of the MHC, Investors Bancorp and the Bank each unanimously adopted the Plan of Conversion and Reorganization of the Mutual Holding Company (the “Plan”) pursuant to which the MHC will undertake a “second-step” conversion and cease to exist. The Bank will reorganize from a two-tier mutual holding company structure to a fully public stock holding company structure. Pursuant to the Plan, (i) the Bank will become a wholly owned subsidiary of a state-chartered stock corporation ("New Investors Bancorp"), (ii) the shares of common stock of the Company held by persons other than the MHC will be converted into shares of common stock of New Investors Bancorp pursuant to an exchange ratio designed to preserve the percentage ownership interests of such persons, and (iii) New Investors Bancorp will offer and sell shares of common stock representing the ownership interest of the MHC in a subscription offering. The Plan is subject to regulatory approval as well as the approval of the depositors of the Bank and the Company's stockholders. On February 12, 2014, the Company received a non-objection letter from the State of New Jersey Department of Banking and Insurance regarding the proposed acquisition of Investors Bank by New Investors Bancorp, Inc., a Delaware corporation. On February 25, 2014, the Company received approval from the Federal Reserve Bank of New York for the Plan of Conversion and Reorganization to become a bank holding company by acquiring 100% of the shares of Investors Bank, and the application by the MHC to convert from mutual to stock form.

The Company is subject to regulations as a bank holding company by the Federal Reserve Board. Since the formation of the Company in 1997, our primary business has been that of holding the common stock of the Bank and additionally since our stock offering, a loan to the ESOP. Investors Bancorp, Inc., as the holding company of Investors Bank, is authorized to pursue other business activities permitted by applicable laws and regulations for bank holding companies. At December 31, 2013, our assets totaled $15.62 billion and our deposits totaled $10.72 billion.

Our cash flow depends on dividends received from the Bank. Investors Bancorp neither owns nor leases any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, we employ as officers only certain persons who are also officers of the Bank and we use the support staff of the Bank from time to time. These persons are not separately compensated by Investors Bancorp. Investors Bancorp may hire additional employees, as appropriate, to the extent it expands its business in the future.

On September 28, 2012, the Company declared its first quarterly cash dividend of $0.05 per share. It was the first dividend since completing its initial public stock offering in October 2005. Since declaring this dividend, the Company has paid a dividend to stockholders in each subsequent quarter with the most recent paid in February 2014.

Acquisitions

We completed the acquisition of Gateway Community Financial Corp., the federally-chartered holding company for GCF Bank, on January 10, 2014. As of December 31, 2013, Gateway Community Financial Corp. operated four branches in Gloucester County, New Jersey, and had assets of $289.4 million, deposits of $257.6 million and a net worth of $24.9 million. Gateway Community Financial Corp. had no public stockholders, and therefore no merger consideration was paid to third parties. We issued 762,776 shares of Investors Bancorp common stock to Investors Bancorp, MHC as consideration for the transaction. As the merger had not been completed as of December 31, 2013, the transaction is not reflected in the consolidated balance sheets or consolidated statements of income at and for the periods presented.

On December 6, 2013, we completed the acquisition of Roma Financial Corporation, the federally-chartered holding company for Roma Bank and RomAsia Bank. Roma Financial Corporation operated 26 branches in Burlington, Ocean, Mercer, Camden and Middlesex Counties, New Jersey. After purchase accounting adjustments, we added $1.34 billion in deposits and $991.0 million in net loans. We issued 6,374,841 shares of Investors Bancorp common stock as merger consideration to stockholders of Roma Financial Corporation and an additional 19,542,796 shares of Investors Bancorp common stock to Investors Bancorp, MHC. In addition, we paid $1.8 million in the aggregate as merger consideration to the stockholders of RomAsia Bank. Roma Financial Corporation was merged into Investors Bank as of the acquisition date.

On October 15, 2012, we completed the acquisition of Marathon Banking Corporation, the holding company of Marathon National Bank of New York, a federally chartered bank with 13 full-service branches in the New York metropolitan area. After purchase accounting adjustments, we added $777.5 million in customer deposits and acquired $558.5 million in net loans. This transaction resulted in $38.6 million of goodwill and generated $5.0 million in core deposit premium. The purchase price of $135.0 million was paid using available cash. Marathon Banking Corporation was merged into Investors Bank as of the acquisition date.

On January 6, 2012, we completed the acquisition of Brooklyn Federal Bancorp, Inc., the holding company of Brooklyn Federal Savings Bank, a federally chartered savings bank with five full-service branches in Brooklyn and Long Island. After the purchase accounting adjustments, we added $385.9 million in customer deposits and acquired $177.5 million in net loans. This transaction resulted in $16.7 million of goodwill and generated $218,000 in core deposit premium. The purchase price of $10.3 million was paid through a combination of Investors Bancorp common stock (551,862 shares), issued to Investors Bancorp, MHC, and cash of $2.9 million. Brooklyn Federal Savings Bank was merged into Investors Bank as of the acquisition date. In a separate transaction, we sold most of Brooklyn Federal Savings Bank's commercial real estate loan portfolio to a real estate investment fund on January 10, 2012.

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Investors Bank

General

Investors Bank is a New Jersey-chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926 as a New Jersey-chartered mutual savings and loan association, we have grown through acquisitions and internal growth, including de novo branching. In 1992, we converted our charter to a mutual savings bank, and in 1997 we converted our charter to a New Jersey-chartered stock savings bank.

We are in the business of attracting deposits from the public through our branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. We originate 1-4 family residential mortgage loans secured by one- to four-family residential real estate loans, multi-family loans, commercial real estate loans, construction loans, commercial and industrial ("C&I") loans and consumer loans, the majority of which are home equity loans and home equity lines of credit. Securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities represented 10.4% of our assets at December 31, 2013. We offer a variety of deposit accounts and emphasize quality customer service. Investors Bank is subject to comprehensive regulation and examination by both the New Jersey Department of Banking and Insurance ("NJDBI"), the Federal Deposit Insurance Corporation ("FDIC") and the Consumer Financial Protection Bureau ("CFPB").

Our results of operations are dependent primarily on our net interest income, which is the difference between the interest earned on our assets, primarily our loan and securities portfolios, and the interest paid on our deposits and borrowings. Our net income is also affected by our provision for loan losses, non-interest income, non-interest expense and income tax expense. Non-interest income includes fees and service charges; income from bank owned life insurance, or BOLI; net gain on loan transactions; net gain on investment securities; impairment losses on investment securities; gain (loss) on sale of other real estate owned and other income. Non-interest expense consists of compensation and fringe benefits expense; advertising and promotional expense; office occupancy and equipment expense; federal deposit insurance premiums; stationary, printing, supplies and telephone expense; professional fees; data processing fees and other operating expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

We conduct business from our main office located at 101 JFK Parkway, Short Hills, New Jersey and over 129 branch offices located throughout northern and central New Jersey and New York. In addition, the Company has a commercial real estate loan production office in New York, New York and an operation center in Iselin, New Jersey. The telephone number at our main office is (973) 924-5100.

Market Area

Our primary deposit gathering area had been concentrated in the communities surrounding our headquarters and our branch offices located in the New Jersey communities of Bergen, Burlington, Camden, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren Counties. Within the last two years, we have expanded our branch locations to include the New York communities of Nassau, Queens, Kings, Richmond, Suffolk and New York counties. Our corporate headquarters are located in Short Hills, New Jersey with an operation center located in Iselin, New Jersey as well as commercial and business lending offices in New York City, Short Hills, Spring Lake, Newark, Astoria and Brooklyn.

With the completion of the Roma acquisitions, we have acquired an additional 26 New Jersey branches in the Burlington, Camden, Mercer, Middlesex and Monmouth counties. As a result of our recent acquisitions, we now have a desirable branch footprint that ranges from the Philadelphia suburbs in southern New Jersey, spans the central and northern geographies of New Jersey and extends out to Long Island. At the end of 2013, we have 24 branch offices located in New York. Our primary lending area is broader than our deposit-gathering area and includes 15 counties in New Jersey and 6 counties in New York. It is largely urban and suburban with a broad economic base as is typical for counties in and surrounding the New York metropolitan area. The market we operate in is considered one of the most attractive banking markets in the United States.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2018. Though slower population growth is projected for some of the counties we serve, it is important to note that these counties represent some of the most densely populated counties. All of the counties we serve have a strong mature market with median household incomes greater than $42,000. The household incomes in the counties we serve are all expected to increase in a range from 8.14% to 26.86% through 2018. The December 2013 unemployment rates for New Jersey and New York were 7.2% and 7.0%, respectively, while the national rate was 6.7%.

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Competition

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money centers and regional banks and community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of June 30, 2013, the latest date for which statistics are available, our market share of deposits was 2.7% of total deposits in the State of New Jersey, however the percentage does not include the acquisitions of both Roma Financial and Gateway Community Financial Corp as these acquisitions occurred subsequent to that date.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

Our loan portfolio is comprised primarily of residential real estate loans, multi-family loans, commercial real estate loans, construction loans, commercial and industrial loans and consumer and other loans. In 2013, we have continue to grow our commercial and industrial ("C&I") loan portfolio. Residential mortgage loans represented $5.70 billion, or 43.6% of our total loans at December 31, 2013. At December 31, 2013, multi-family loans totaled $3.99 billion, or 30.5% of our total loan portfolio, commercial real estate loans totaled $2.51 billion, or 19.2% of our total loan portfolio, construction loans totaled $202.3 million, or 1.6% of our total loan portfolio, and commercial and industrial loans totaled $268.4 million or 2.0% of our total loan portfolio. We also offer consumer loans, which consist primarily of home equity loans and home equity lines of credit. At December 31, 2013, consumer and other loans totaled $404.0 million or 3.1% of our total loan portfolio.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, including Purchased Credit-Impaired ("PCI") loans at the dates indicated.

	December 31, 2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Residential mortgage loans	$5,698,351	43.62 %	$4,838,315	46.35 %	5,034,161	56.59 %	4,939,244	61.78 %	4,773,556	71.76
Multi-family loans	3,986,208	30.51	2,995,471	28.70	1,816,118	20.42	1,161,874	14.53	612,743	9.21
Commercial real estate loans	2,505,327	19.18	1,971,689	18.89	1,418,636	15.95	1,225,256	15.33	730,012	10.97
Construction loans	202,261	1.55	224,816	2.15	277,625	3.12	347,825	4.35	334,480	5.03
Commercial and industrial loans	268,422	2.05	169,258	1.62	106,299	1.20	60,903	0.76	23,159	0.35
Consumer and other loans:										
Home equity loans	245,653	1.88	101,163	0.97	121,134	1.36	147,540	1.84	104,864	1.58
Home equity credit lines	150,796	1.15	131,808	1.26	117,445	1.32	108,356	1.36	70,341	1.06
Other	7,600	0.06	5,951	0.06	3,648	0.04	3,861	0.05	2,972	0.04
Total consumer and other loans	404,049	3.09	238,922	2.29	242,227	2.72	259,757	3.25	178,177	2.68
Total loans	$13,064,618	100.00%	$10,438,471	100.00%	$8,895,066	100.00%	$7,994,859	100.00%	$6,652,127	100.00
Premiums on purchased loans, net	$52,014		$43,023		29,927		22,021		22,958	
Deferred loan fees, net	(60,160)		(32,536)		(13,540)		(8,244)		(4,574)	
Allowance for loan losses	(173,928)		(142,172)		(117,242)		(90,931)		(55,052)	
Net loans	$12,882,544		$10,306,786		$8,794,211		$7,917,705		$6,615,459	

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Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio, including PCI loans at December 31, 2013. Overdraft loans are reported as being due in one year or less.

	At December 31, 2013						
	Residential Mortgage Loans	Multi-Family Loans	Commercial Real Estate Loans	Construction Loans	Commercial and Industrial Loans	Consumer and Other Loans	Total
	(In thousands)						
Amounts Due:							
One year or less	$19,925	78,180	216,205	110,471	95,660	87,998	608,439
After one year:							
One to three years	3,317	465,968	416,141	78,883	35,562	14,101	1,013,972
Three to five years	32,854	1,086,898	836,112	11,800	56,732	28,838	2,053,234
Five to ten years	200,936	2,120,562	880,451	831	57,976	90,102	3,350,858
Ten to twenty years	1,326,569	231,394	155,153	276	22,492	119,105	1,854,989
Over twenty years	4,114,750	3,206	1,265	—	—	63,905	4,183,126
Total due after one year	5,678,426	3,908,028	2,289,122	91,790	172,762	316,051	12,456,179
Total loans	$5,698,351	3,986,208	2,505,327	202,261	268,422	404,049	13,064,618
Premiums on purchased loans, net							52,014
Deferred loan fees, net							(60,160)
Allowance for loan losses							(173,928)
Net loans							$12,882,544

The following table sets forth fixed- and adjustable-rate loans at December 31, 2013 that are contractually due after December 31, 2014.

	Due After December 31, 2014		
	Fixed	Adjustable	Total
	(In thousands)		
Residential mortgage loans	$3,640,004	2,038,422	5,678,426
Multi-family loans	1,842,436	2,065,592	3,908,028
Commercial real estate loans	1,241,476	1,047,646	2,289,122
Construction loans	31,296	60,494	91,790
Commercial and industrial loans	139,408	33,354	172,762
Consumer and other loans:			
Home equity loans	242,335	—	242,335
Home equity credit lines	—	71,516	71,516
Other	2,200	—	2,200
Total consumer and other loans	244,535	71,516	316,051
Total loans	$7,139,155	5,317,024	12,456,179

Residential Mortgage Loans. One of our primary lending activities has been originating and purchasing residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At December 31, 2013, $5.70 billion, or 43.6%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, Investors Home Mortgage, for our loan portfolio and for sale to third parties. We also purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases we acquire the loans with servicing rights, but we have some arrangements in which the correspondent entity will sell us the loan without servicing rights. In addition, occasionally we purchase pools of mortgage loans in the secondary market on a "bulk purchase" basis from several well-established financial institutions. While some of these financial institutions retain the servicing rights for loans they sell to us, when presented with the opportunity to purchase the servicing rights as part of the loan, we may decide to purchase the servicing rights. This decision is generally based on the price and other relevant factors.

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Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property to a maximum loan amount of $1,250,000. Loans over $1,250,000 require a lower loan to value ratio. Loans in excess of 80% of value require private mortgage insurance and cannot exceed $500,000. We will not make loans with a loan-to-value ratio in excess of 95% or 97% for programs to low or moderate-income borrowers. Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At December 31, 2013, we held $3.64 billion in fixed-rate residential mortgage loans which represented 64.1% of our residential mortgage loan portfolio.

We also offer adjustable-rate residential mortgage loans, which adjust annually after three, five, seven or ten year initial fixed-rate periods. Our adjustable rate loans usually adjust to an index plus a margin, based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year. Annual caps of 2% per adjustment apply, with a lifetime maximum adjustment of 5% on most loans. Our adjustable-rate mortgage loans amortize over terms of up to 30 years. In addition, we hold in loan portfolio interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower’s contractually required payments due to the required amortization of the principal amount after the interest-only period. Borrowers were qualified using the loan rate at the date of origination and the fully amortized payment amount.

Adjustable-rate mortgage loans decrease the Bank’s risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates or a decline in housing values. The maximum periodic and lifetime interest rate adjustments may limit the effectiveness of adjustable-rate mortgages during periods of rapidly rising interest rates. At December 31, 2013, we held $2.04 billion of adjustable-rate residential mortgage loans, of which $341.7 million were interest-only one- to four-family mortgages. Adjustable-rate residential mortgage loans represented 35.9% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer various loan programs some of which include down payment assistance for home purchases. Through these programs, qualified individuals receive a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met.

All residential mortgage loans we originate include a “due-on-sale” clause, which gives us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Multi-family and Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, we offer mortgages on multi-family and commercial real estate properties. At December 31, 2013, $3.99 billion, or 30.5% of our total loan portfolio was multi-family and $2.51 billion or 19.2%, of our total loan portfolio was commercial real estate loans. Our policy generally has been to originate multi-family and commercial real estate loans in New Jersey, New York and surrounding states. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. The multi-family and commercial real estate loans in our portfolio consist of both fixed-rate and adjustable-rate loans which were originated at prevailing market rates. Multi-family and commercial real estate loans are generally five to fifteen year term balloon loans amortized over fifteen to thirty years. The maximum loan-to-value ratio is 70% for our commercial real estate loans and 75% for multi-family loans. At December 31, 2013, our largest commercial real estate loan was $36.4 million and is on an office building in New Jersey and is performing in accordance with its contractual terms. Our largest multi-family loan was $38.6 million and is on nine apartment buildings in New Jersey and is performing accordance with its contractual terms.

We consider a number of factors when we originate multi-family and commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service for apartment buildings and 130% for commercial income-producing properties. All multi family and commercial real estate loans are appraised by outside independent appraisers who have been approved by our Board of Directors. Personal guarantees are obtained from multi family and commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio of the proposed loan and other factors. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

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Multi-family loans are generally lower credit risk than other types of commercial real estate lending due to the diversification of cash flows to service the debt over multiple tenants. Loans secured by multi-family and commercial real estate generally are larger than residential mortgage loans and can involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, management annually evaluates the performance of all commercial loans in excess of $1.0 million.

Construction Loans. We offer loans directly to builders and developers on income-producing properties and residential for-sale housing units. At December 31, 2013, we held $202.3 million in construction loans representing 1.6%, of our total loan portfolio. Construction loans are originated through our commercial lending department. Generally, construction loans will be structured to be repaid over a three-year period and generally will be made in amounts of up to 70% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for sold units requires an executed sales contract.

Construction loans generally involve a greater degree of credit risk than either residential mortgage loans or other commercial mortgage loans. The risk of loss on a construction loan depends on the accuracy of the initial estimate of the property's value when the construction is completed compared to the estimated cost of construction. For all loans, we use outside independent appraisers approved by our Board of Directors. We require all borrowers to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance. A detailed plan and cost review by an outside engineering firm is required on loans in excess of $2.5 million.

At December 31, 2013, the Bank's largest construction loan was a $34.0 million note with an outstanding balance of $27.2 million on an apartment-rental project in New Jersey. At December 31, 2013, the loan was performing in accordance with contractual terms.

Commercial and Industrial Loans. We offer commercial and industrial loans which are comprised of term loans and lines of credit. These loans are generally secured by real estate or business assets and include personal guarantees. The loan to value limit is 75% and businesses will typically have at least a two year history. The Company's recent acquisitions and de novo branch expansion has provided a larger market area to leverage new products. We have expanded and increased our New York market lending presence by hiring experienced consumer and industrial team members as well as expanding our business lending into the healthcare industry and asset based lending to focus on this segment of the market. At December 31, 2013, consumer and industrial loans totaled $268.4 million, or 2.0%, of our loan portfolio. Included in commercial real estate loans are owner occupied commercial mortgage loans which total $416.1 million at December 31, 2013.

Consumer Loans. We offer consumer loans, most of which consist of home equity loans and home equity lines of credit. Home equity loans and home equity lines of credit are secured by residences primarily located in New Jersey and New York. At December 31, 2013, consumer loans totaled $404.0 million or 3.1%, of our total loan portfolio. The underwriting standards we use for home equity loans and home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing credit obligations, the payment on the proposed loan and the value of the collateral securing the loan. The combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is generally limited to a maximum of 80%. Home equity loans are offered with fixed rates of interest, terms up to 30 years and to a maximum of $500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in The Wall Street Journal.

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Loan Originations and Purchases. The following table shows our loan originations, loan purchases and repayment activities with respect to our portfolio of loans receivable for the periods indicated. Origination, sale and repayment activities with respect to our loans-held-for-sale are excluded from the table.

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Loan originations and purchases			
Loan originations:			
Residential mortgage loans	$1,069,518	$693,996	767,241
Multi-family loans	1,592,509	1,285,775	846,685
Commercial real estate loans	454,152	458,847	308,245
Construction loans	57,524	32,219	120,773
Commercial and industrial loans	250,981	139,833	104,120
Consumer and other loans:			
Home equity loans	19,197	13,674	14,399
Home equity credit lines	58,936	55,295	64,630
Other	1,440	838	15,314
Total consumer and other loans	79,573	69,807	94,343
Total loan originations	3,504,257	2,680,477	2,241,407
Loan purchases:			
Residential mortgage loans	1,054,395	638,788	710,880
Commercial real estate	—	—	—
Multi-family	—	—	—
Construction loans	—	—	—
Commercial and industrial	—	—	—
Consumer and other loans:			
Home equity loans	—	—	—
Home equity credit lines	—	—	—
Other	—	—	—
Total consumer and other loans	—	—	—
Total loan purchases	1,054,395	638,788	710,880
Loans sold and principal repayments	(2,931,593)	(2,508,908)	(2,042,462)
Other items, net(1)	(42,271)	(33,784)	(33,319)
Net loans acquired in acquisition	990,970	736,003	—
Net increase in loan portfolio	$2,575,758	$1,512,576	876,506

(1) Other items include charge-offs, loan loss provisions, loans transferred to other real estate owned, and amortization and accretion of deferred fees and costs, discounts and premiums, and purchase accounting adjustments.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for residential loans, we assess the borrower's ability to repay the loan and the value of the property securing the loan. To assess the borrower's ability to repay, we review the borrower's income and expenses and employment and credit history. In the case of commercial real estate loans we also review projected income, expenses and the viability of the project being financed. We generally require appraisals of all real property securing loans, except for home equity loans and home equity lines of credit, in which case we may use the tax-assessed value of the property securing such loan or a lesser form of valuation, such as a home value estimator or by a drive-by value estimated performed by an approved appraisal company. Appraisals are performed by independent licensed appraisers who are approved by our Board of Directors. We require borrowers, except for home equity loans and home equity lines of credit, to obtain title insurance. All real estate secured loans require fire and casualty insurance and, if warranted, flood insurance in amounts at least equals to the principal amount of the loan or the maximum amount available.

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Our loan approval policies and limits are also established by our Board of Directors. All residential mortgage loans including home equity loans and home equity lines of credit up to $500,000 requires approval by loan underwriters, provided the loan meets all of our underwriting guidelines. Residential mortgage loans up to $750,000 requires approval by an Underwriting Supervisor, provided the loan meets all of our underwriting guidelines. If the loans up to $750,000 does not meet all of our underwriting guidelines, but can be considered for approval because of other compensating factors, the loan must be approved by an authorized member of management. Residential mortgage loans in excess of $750,001 and up to $1,500,000 requires approval of an authorized member of management Residential mortgage loans in excess of $1,500,001 and up to $2,000,000 must be approved by three authorized members of management. Residential mortgage loans in excess of $2,000,001 and up to $3,000,000 must be approved by three authorized members of management, one of whom must be an Executive Officer. Investors Home Mortgage shall have designated underwriting and loan approval for loans up to $1,000,000 that meet policy. In the absence of any of the above Officers, the CEO or COO may approve all loans up to $3,000,000 if necessary.

All commercial real estate, multi-family and construction loan requests up to $1,000,000 without policy exceptions or total credit relationships in an amount up to $5,000,000 requires approval by the Vice President/Team Leader. All commercial real estate, multi-family and construction loan requests up to $2,000,000 without policy exceptions or total credit relationships in an amount up to $5,000,000 requires approval by the Vice President/ Team Leader and either; Senior Vice President -CRE, Chief Lending Officer, Chief Operating Officer or Chief Executive Officer . All commercial real estate loan requests up to $5,000,000 without policy exceptions or total credit relationships up to $10,000,000 requires approval by the Vice President/ Team Leader or Senior Vice President-CRE and either Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All commercial real estate, multi-family and construction loan requests up to $7,500,000 or total credit relationships in excess of $10,000,000 or any loan with or without a policy exception requires approval by the Vice President/Team Leader or Senior Vice President - CRE and Chief Operating Officer. All commercial real estate, multi-family and construction requests in excess of $7,500,000 or total credit relationships in excess of $10,000,000 or any loan with a policy exception not approved as stated above requires approval of the Commercial Loan Committee. consisting of the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer, Chief Financial Officer, Chief Retail Banking Officer, Senior Vice President -CRE (cannot approve CRE loans), and the Senior Vice President- Business Lending (cannot approve Business loans).

All business loans up to $1,500,000 with real estate as collateral without policy exceptions or total credit relationships in an amount up to $3,000,000 requires approval by the Senior Vice President-Business Lending, Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests up to $3,000,000 with real estate as collateral without policy exceptions or total credit relationships up to $5,000,000 requires approval by the Senior Vice President, Business Lending and either the Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests in excess of $3,000,000 or total credit relationships in excess of $5,000,000 or any loan with a policy exception requires approval of the Commercial Loan Committee., consisting of the Chief Executive Officer, Chief Operating Officer, Chief Lending Officer, Chief Financial Officer, Chief Retail Banking Officer, Senior Vice President of CRE (cannot approve CRE Loans) and the Senior Vice President- Business Lending (cannot approve Business loans). All business loans up to $500,000 without real estate as collateral or total credit relationships in an amount up to $3,000,000 without policy exception require approval by the Senior Vice President-Business Lending, Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests up to $1,000,000 without real estate as collateral or total credit relationships up to $5,000,000 without policy exception requires approval by the Senior Vice President-Business Lending and either Chief Lending Officer, Chief Operating Officer or Chief Executive Officer. All loan requests in excess of $1,000,000 without real estate as collateral or total credit relationships in excess of $5,000,000 without policy exception shall require the approval of the Commercial Loan Committee. A business loan request that does not exceed more than 10% of an overall relationship may be approved as a separate loan request and not aggregated as part of a total loan relationship and shall not be greater than $250,000 nor contain a policy exception.

Loans to One Borrower. The Bank’s regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. As of December 31, 2013, the regulatory lending limit was $186.6 million. The Bank’s internal policy limit is $70.0 million, with the option to exceed that limit with the Board of Directors’ ratification, on total loans to a borrower or related borrowers. The Bank reviews these group exposures on a monthly basis. The Bank also sets additional limits on size of loans by loan type. At December 31, 2013, the Bank’s largest relationship with an individual borrower and its related entities was $105.6 million, consisting of seven multi-family loans, a construction loan and a commercial loan. The relationship was ratified by the Board of Directors and was performing in accordance with contractual terms as of December 31, 2013.

Asset Quality

One of the Bank’s key operating objectives has been, and continues to be, maintaining a high level of asset quality. The Bank maintains sound credit standards for new loan originations and purchases. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. In addition, the Bank uses proactive collection and workout processes in dealing with delinquent and problem loans.

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The underlying credit quality of our loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral securing the loan, if any. A borrower's ability to pay typically is dependent; in the case of one-to-four family mortgage loans and consumer loans, primarily on employment and other sources of income; in the case of multi-family and commercial real estate loans, on the cash flow generated by the property; in the case of C&I loans, on the cash flows generated by the business, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower's ability to pay. Collateral values, particularly real estate values, are also impacted by a variety of factors including general economic conditions, demographics, maintenance and collection or foreclosure delays.

Purchased Credit-Impaired Loans. Purchased Credit-Impaired ("PCI") loans are loans acquired through acquisition or purchased at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the covered loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loans and results in an increase in yield on a prospective basis.

Collection Procedures. We send system-generated reminder notices to start collection efforts when a loan becomes fifteen days past due. Subsequent late charge and delinquency notices are sent and the account is monitored on a regular basis thereafter. Direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. We provide the Board of Directors with a summary report of loans 30 days or more past due on a monthly basis. When a loan is more than 90 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are placed on non-accrual status when they are 90 days delinquent, but may be placed on non-accrual status earlier if the timely collection of principal and/or income is doubtful. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and additional income is recognized in the period collected unless the ultimate collection of principal is considered doubtful. If our effort to cure the delinquency fails and a repayment plan is not in place, the file is referred to counsel for commencement of foreclosure or other collection efforts. We also own loans serviced by other entities and we monitor delinquencies on such loans using reports the servicers send to us. When we receive these past due reports, we review the data and contact the servicer to discuss the specific loans and the status of the collection process. We add the information from the servicer's delinquent loan reports to our own delinquent reports and provide a full summary report monthly to our Board of Directors.

Our collection procedure for non mortgage related consumer and other loans includes sending periodic late notices to a borrower once a loan is past due. We attempt to make direct contact with the borrower once a loan becomes 30 days past due. The Collection Manager reviews loans 60 days or more delinquent on a regular basis. If collection activity is unsuccessful after 90 days, we may refer the matter to our legal counsel for further collection efforts or we may charge-off the loan. Non real estate related consumer loans that are considered uncollectible are proposed for charge-off by the Collection Manager on a quarterly basis.

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Delinquent Loans. The following table sets forth our loan delinquencies by type and by amount at the dates indicated, excluding loans classified as PCI.

	Loans Delinquent For 60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At December 31, 2013						
Residential mortgage loans	34	$7,358	253	$66,079	287	$73,437
Multi-family	2	218	4	3,588	6	3,806
Commercial real estate	4	10,247	11	2,091	15	12,338
Construction loans	1	527	18	16,181	19	16,708
Commercial and industrial	2	287	3			