Kearny Financial Corp.
Form 10-K
September 15, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended June 30, 2008

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________________ to __________________

Commission File Number: **0-51093**

KEARNY FINANCIAL CORP.
(Exact name of Registrant as specified in its Charter)

United States	**22-3803741**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
120 Passaic Avenue, Fairfield, New Jersey	**07004**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code:**(973) 244-4500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	**The NASDAQ Stock Market LLC**

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. o YES x 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. o YES x NO

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. x YES o 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. x

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) was $198.6 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of September 5, 2008 there were outstanding 70,450,703 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders. (Part III)

KEARNY FINANCIAL CORP.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended June 30, 2008

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Forward-Looking Statements

Kearny Financial Corp. (the “Company” or the “Registrant”) may from time to time make written or oral “forward-looking statements,” including statements contained in the Company’s filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). In addition to the factors described under Item 1A. Risk Factors, the following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations; the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the impact of changes in financial services laws and regulations (including laws concerning taxation, banking, securities and insurance); changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board (“FASB”) or the Public Company Accounting Oversight Board; technological changes; competition among financial services providers; and the success of the Company at managing the risks involved in the foregoing and managing its business.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

PART I

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the “Bank”), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, representing 30% of its outstanding common stock upon completion of the offering. The remaining 70% of the outstanding common stock, totaling 50,916,250 shares, were retained by Kearny MHC (the “MHC”). The MHC is a federally-chartered mutual holding company and so long as the MHC is in existence, it will at all time own a majority of the outstanding common stock of the Company. The stock repurchase programs conducted by the Company since the offering have reduced the total number of shares outstanding. The 50,916,250 shares held by the MHC represented 72.2% of the total shares outstanding as of the Company’s June 30, 2008 fiscal year end. The MHC and the Company are regulated by the Office of Thrift Supervision.

The Company is a unitary savings and loan holding company and conducts no significant business or operations of its own. References in this Annual Report on Form 10-K to the Company or Registrant generally refer to the Company and the Bank, unless the context indicates otherwise. References to “we,” “us,” or “our” refer to the Bank or Company, or both, as the context indicates.

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The Bank was originally founded in 1884 as a New Jersey mutual building and loan association. It obtained federal insurance of accounts in 1939 and received a federal charter in 1941. The Bank's deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation and the Bank is regulated by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

Our primary business is attracting retail deposits from the public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our investing and lending activities. We invest in mortgage-backed securities, U.S. government obligations, obligations of state and political subdivisions and other securities. Our loan portfolio consists of one-to-four family residential mortgage loans, multi-family and commercial mortgage loans, commercial business loans, home equity loans and lines of credit, other consumer loans and construction loans. At June 30, 2008, net loans receivable comprised 49.0% of our total assets while securities (mortgage-backed securities and non-mortgage-backed) comprised 36.7% of our total assets. By comparison, at June 30, 2007, net loans receivable comprised 44.9% of our total assets while securities comprised 38.2% of our total assets. It is our intention to continue increasing the balance of our loan portfolio relative to the size of our securities portfolio.

We operate from an administrative headquarters in Fairfield, New Jersey and as of June 30, 2008 had 28 branch offices. We also operate an Internet website at www.kearnyfederalsavings.com. As of June 30, 2008, we had 266 full-time employees and 20 part-time employees.

Market Area. Our primary market area consists of the northern New Jersey counties in which we currently operate branches: Bergen, Hudson, Passaic, Morris, Middlesex, Essex, Union and Ocean Counties. We also consider Monmouth County, New Jersey to be part of our market area. Our lending is concentrated in these nine counties and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

Our primary market area is largely urban and suburban with a broad economic base as is typical within the New York metropolitan area. Service jobs represent the largest employment sector followed by wholesale/retail trade.

Our business of attracting deposits and making loans is primarily conducted within our market area. A downturn in the local economy could reduce the amount of funds available for deposit and the ability of borrowers to repay their loans. As a result, our profitability could decrease.

Competition. We operate in a market area with a high concentration of banking and financial institutions and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans and we face competition for funds from investment products such as mutual funds, short-term money market funds and corporate and government securities. There are large competitors operating throughout our total market area, including Bank of America, TD Commerce Bank, Wachovia Bank, PNC Bank and Hudson City Savings Bank with JP Morgan Chase Bank and Citibank also expanding their presence and we face strong competition from other community-based financial institutions. Based on data compiled by the Federal Deposit Insurance

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Corporation as of June 30, 2007, the latest date for which such data is available, Kearny Federal Savings Bank was ranked 20th of 119 depository institutions operating in the eight counties in which it has branches with 0.95% of total FDIC-insured deposits.

Lending Activities

General. We have traditionally focused on the origination of one-to-four family loans, which comprise a significant majority of our total loan portfolio. Our next largest category of lending is commercial real estate, which includes multi-family dwellings, mixed-use properties and other commercial properties. We also offer consumer loans (primarily composed of home equity loans and lines of credit), construction loans (to builders and developers as well as to individual homeowners) and commercial business loans, generally secured by real estate. Substantially all of our borrowers are residents of our primary market area and would be expected to be similarly affected by economic and other conditions in that area. Since May 2007, we have been purchasing out-of-state one-to-four family first mortgage loans in states we have deemed to be minimally affected by the housing and credit crises, to supplement our in-house originations, as discussed on Page 11.

	At June 30,									
	2008		**2007**		**2006**		**2005**		**2004**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in Thousands)									
Real estate mortgage:										
One-to-four family	**$ 687,679**	**66.99 %**	$ 559,306	64.66 %	$ 465,822	65.80 %	$ 382,766	68.03 %	$ 358,241	70.22 %
Multi-family and commercial	**178,588**	**17.40**	159,147	18.40	107,111	15.13	96,685	17.19	83,426	16.35
Commercial business	**8,735**	**0.85**	4,205	0.48	3,208	0.45	2,930	0.52	5,161	1.01
Consumer:										
Home equity loans	**123,978**	**12.08**	113,624	13.14	93,639	13.23	54,199	9.63	37,381	7.33
Home equity lines of credit	**11,478**	**1.12**	12,748	1.47	12,988	1.83	14,850	2.64	15,677	3.07
Passbook or certificate	**2,662**	**0.26**	3,250	0.38	2,884	0.41	2,831	0.50	2,746	0.54
Other	**1,332**	**0.13**	1,391	0.16	247	0.03	264	0.05	336	0.07
Construction	**12,062**	**1.17**	11,360	1.31	22,078	3.12	8,094	1.44	7,212	1.41
Total loans	**1,026,514**	**100.00 %**	865,031	100.00 %	707,977	100.00 %	562,619	100.00 %	510,180	100.00 %
Less:										
Allowance for loan losses	**6,104**		6,049		5,451		5,416		5,144	
Deferred loan (costs) and fees, net	**(1,276)**		(1,511)		(1,087)		(815)		(758)	
	4,828		4,538		4,364		4,601		4,386	
Total loans, net	**$ 1,021,686**		$ 860,493		$ 703,613		$ 558,018		$ 505,794	

Loan Maturity Schedule. The following table sets forth the maturities of our loan portfolio at June 30, 2008. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Real estate mortgage: One-to-four family	**Real estate mortgage: Multi-family and commercial**	**Commercial business**	**Home equity loans**	**Home equity lines of credit**	**Passbook or certificate**	**Other**	**Construction**	**Total**
	(In Thousands)								
Amounts Due:									
Within 1 Year	$ 303	$ 262	$ 1,342	$ 147	$ 37	$ 1,438	$ 106	$ 8,467	$ 12,102
After 1 year:									
1 to 3 years	2,135	1,189	3,402	5,303	22	123	9	3,595	15,778
3 to 5 years	18,164	3,265	457	9,487	161	8	—	—	31,542
5 to 10 years	102,384	11,645	—	36,732	5,284	10	—	—	156,055
10 to 15 years	121,819	33,584	1,554	36,782	5,068	—	—	—	198,807
Over 15 years	442,874	128,643	1,980	35,527	906	1,083	1,217	—	612,230
Total due after one year	687,376	178,326	7,393	123,831	11,441	1,224	1,226	3,595	1,014,412
Total amount due	$ 687,679	$ 178,588	$ 8,735	$ 123,978	$ 11,478	$ 2,662	$ 1,332	$ 12,062	$ 1,026,514

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The following table shows the dollar amount of loans as of June 30, 2008 due after June 30, 2009 according to rate type and loan category.

	Fixed Rates	Floating or Adjustable Rates	Total
	(In Thousands)		
Real estate mortgage:			
One-to-four family	$ 604,022	$ 83,354	$ 687,376
Multi-family and commercial	155,626	22,700	178,326
Commercial business	3,162	4,231	7,393
Consumer:			
Home equity loans	123,831	—	123,831
Home equity lines of credit	2,904	8,537	11,441
Passbook or certificate	—	1,224	1,224
Other	9	1,217	1,226
Construction	—	3,595	3,595
Total	$ 889,554	$ 124,858	$ 1,014,412

One-to-Four Family Mortgage Loans. Our primary lending activity consists of the origination of one-to-four family first mortgage loans, of which approximately $618.8 million are secured by property located within New Jersey. During the year ended June 30, 2008, the Bank originated $99.1 million of one-to-four family first mortgage loans within New Jersey compared to $67.2 million in the year ended June 30, 2007. Contributing to the increase in one-to-four family first mortgage loan originations were increased marketing efforts as well as the tightening of credit standards by large mortgage originators negatively impacted by the housing and credit crisis. We also purchased one-to-four family first mortgages totaling $102.2 million during the year ended June 30, 2008, compared to $97.5 million during the year ended June 30, 2007.

We will originate a one-to-four family mortgage loan on an owner-occupied property with a principal amount of up to 95% of the lesser of the appraised value or the purchase price of the property, with private mortgage insurance required if the loan-to-value ratio exceeds 80%. Our loan-to-value limit on a non-owner-occupied property is 75%. Loans in excess of $1.0 million are handled on a case-by-case basis and are subject to lower loan-to-value limits, generally no more than 50%.

Our fixed-rate and adjustable-rate residential mortgage loans on owner-occupied properties have terms of ten to 30 years. Residential mortgage loans on non-owner-occupied properties have terms of up to 15 years for fixed-rate loans and terms up to 20 years for adjustable-rate loans. We also offer ten-year balloon mortgages with a thirty-year amortization schedule on owner-occupied properties and a twenty-year amortization schedule on non-owner-occupied properties.

Our adjustable-rate loan products provide for an interest rate that is tied to the one-year Constant Maturity U.S. Treasury index and have terms of up to 30 years with initial fixed-rate periods of one, three, five, seven, or ten years according to the terms of the loan and annual rate adjustment thereafter. We also offer an adjustable-rate loan with a term of up to 30 years with a rate that adjusts every five years to the five-year Constant Maturity U.S. Treasury index. There is a 200 basis point limit on the rate adjustment in any adjustment period and the rate adjustment limit over the life of the loan is 600 basis points.

We offer a first-time homebuyer program for persons who have not previously owned real estate and are purchasing a one-to-four family property in Bergen, Passaic, Morris, Essex, Hudson, Middlesex, Monmouth, Ocean and Union Counties, New Jersey for use as a primary residence. This program is also available outside these areas only to persons who are existing deposit or loan customers of Kearny Federal Savings Bank and/or members of their immediate families. The financial incentives offered under this program are a one-eighth of one percent rate reduction on all first mortgage loan types and the refund of the application fee at closing.

The fixed-rate mortgage loans that we originate generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation. However, as our focus is on increasing the size of the loan portfolio, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no residential mortgage loan sales during the last three fiscal years.

Substantially all of our residential mortgages include “due on sale” clauses, which give us the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party. Property appraisals on real estate securing our one-to-four family first mortgage loans are made by state certified or licensed independent appraisers approved by the Board of Directors. Appraisals are performed in accordance with applicable regulations and policies. We require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability and fire insurance and, if applicable, flood insurance, are also required.

Multi-Family and Commercial Real Estate Mortgage Loans. We also originate mortgage loans on multi-family and commercial real estate properties, including loans on apartment buildings, retail/service properties and other income-producing properties, such as mixed-use properties combining residential and commercial space. The Bank originated $44.9 million of multi-family and commercial real estate mortgages during the year ended June 30, 2008, compared to $62.9 million during the year ended June 30, 2007. The Bank’s business plan calls for an increased emphasis on originating these types of mortgages, however, a slowing economy led to the decrease in originations year-over-year. Also, this type of loan product became somewhat less desirable due to depressed yields resulting from intense competition in our market area for quality commercial real estate loans.

We generally require no less than a 30% down payment or equity position for mortgage loans on multi-family and commercial real estate properties and we require personal guarantees on all such loans. Currently, these loans are made with a maturity of up to 20 years. We also offer a five-year balloon loan with a twenty-year amortization schedule. All of our multi-family and commercial real estate mortgage loans are on properties located in New Jersey.

Multi-family and commercial real estate mortgage loans generally are considered to entail significantly greater risk than that which is involved with one-to-four family, owner-occupied real estate lending. The repayment of these loans typically is dependent on the successful operations and income stream of the borrower and the real estate securing the loan as collateral. These risks can be significantly affected by economic conditions. In addition, multi-family and commercial real estate mortgage loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family mortgage loans. Multi-family and commercial real estate lending typically requires substantially greater evaluation and oversight efforts compared to residential real estate lending.

Commercial Business Loans. We also originate commercial term loans and lines of credit to a variety of professionals, sole proprietorships and small businesses in our market area. During the year ended June 30, 2008, the Bank originated $7.6 million of commercial business loans compared to $4.6 million during the year ended June 30, 2007. Year-over-year, commercial business loan originations

increased despite the decrease in commercial real estate mortgage originations. Management expects a gradual increase in the origination of commercial business loans since the typical borrower may have a need for both types of loans.

These loans are normally secured by real estate and we require personal guarantees on all commercial loans. Approximately 65.6% of our commercial business loans are secured by one-to-four family properties and approximately 33.8% are secured by commercial real estate. Marketable securities may also be accepted as collateral on lines of credit, but with a loan to value limit of 50%. The loan to value limit on secured commercial lines of credit and term loans is otherwise generally limited to 70%. We also make unsecured commercial loans in the form of overdraft checking authorization up to $25,000 and unsecured lines of credit up to $25,000.

Our commercial term loans generally have terms of up to 15 years and are mostly fixed-rate loans. Our commercial lines of credit have terms of up to two years and are mostly adjustable-rate loans. We also offer a one-year, interest-only commercial line of credit with a balloon payment.

Unlike single-family, owner-occupied residential mortgage loans, which generally are made on the basis of the borrower’s ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial business loans, therefore, have greater credit risk than residential mortgage loans. In addition, commercial loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family first mortgage loans. Commercial lending requires substantially greater evaluation and oversight efforts compared to residential or commercial real estate lending.

Home Equity Loans and Lines of Credit. Our home equity loans are fixed-rate loans for terms of generally up to 20 years. We also offer fixed-rate and adjustable-rate home equity lines of credit with terms of up to 15 years. During the year ended June 30, 2008, the Bank originated $45.0 million of home equity loans and lines of credit compared to $51.4 million in the year ended June 30, 2007. The decrease in originations resulted from strong competition in the marketplace for these types of loans as well as a general decline in the value of residential real estate.

Collateral value is determined through an Automated Valuation Module (AVM), specifically, Freddie Mac’s Home Valuation Explorer (HVE), or property value analysis report (FHLMC Form 704) provided by a state certified or licensed independent appraiser. In some cases, we determine collateral value by a full appraisal performed by a state certified or licensed independent appraiser. Home equity loans and lines of credit do not require title insurance but do require homeowner, liability and fire insurance and, if applicable, flood insurance.

Home equity loans and fixed-rate home equity lines of credit are primarily originated in our market area and are generally made in amounts of up to 80% of value on term loans and of up to 75% of value on home equity adjustable-rate lines of credit. We originate home equity loans secured by either a first lien or a second lien on the property.

Other Consumer Loans. In addition to home equity loans and lines of credit, our consumer loan portfolio includes loans secured by savings accounts and certificates of deposit on deposit with the Bank and unsecured personal overdraft loans. We will generally lend up to 90% of the account balance on a loan secured by a savings account or certificate of deposit.

Consumer loans entail greater risks than residential mortgage loans, particularly consumer loans that are unsecured. Consumer loan repayment is dependent on the borrower's continuing financial stability and is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. The application of various federal laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on consumer loans in the event of a default.

Our underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment and any additional verifiable secondary income.

Construction Lending. Our construction lending includes loans to individuals for construction of one-to-four family residences or for major renovations or improvements to an existing dwelling. Our construction lending also includes loans to builders and developers for multi-unit buildings or multi-house projects. All of our construction lending is in New Jersey. During the year ended June 30, 2008, construction loan originations and/or disbursements were $5.6 million compared to $6.3 million during the year ended June 30, 2007. For the second year in a row, there was a decrease in construction loan originations and/or disbursements year-over-year, due to the sluggish residential real estate market.

Construction borrowers must hold title to the land free and clear of any liens. Financing for construction loans is limited to 80% of the anticipated appraised value of the completed property. Disbursements are made in accordance with inspection reports by our approved appraisal firms. Terms of financing are limited to one year with an interest rate tied to the prime rate published in the Wall Street Journal and may include a premium of one or more points. In some cases, we convert a construction loan to a permanent mortgage loan upon completion of construction.

We have no formal limits as to the number of projects a builder has under construction or development and make a case-by-case determination on loans to builders and developers who have multiple projects under development. The Board of Directors reviews the Bank's business relationship with a builder or developer prior to accepting a loan application for processing. We generally do not make construction loans to builders on a speculative basis. There must be a contract in place. Financing is provided for up to two houses at a time in a multi-house project, requiring a contract on one of the two houses before financing for the next house may be obtained.

Construction lending is generally considered to involve a higher degree of credit risk than mortgage lending. If the initial estimate of construction cost proves to be inaccurate, we may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period.

Loans to One Borrower. Federal law generally limits the amount that a savings institution may lend to one borrower to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. Accordingly, as of June 30, 2008, our loans-to-one-borrower limit was approximately $52.6 million.

At June 30, 2008, our largest single borrower had an aggregate loan balance of approximately $14.9 million, representing four mortgage loans secured by commercial real estate. Our second largest single borrower had an aggregate loan balance of approximately $10.7 million, representing nine loans secured by commercial real estate, two residential construction loans and one residential loan. Our third largest borrower had an aggregate loan balance of approximately $10.0 million, representing two loans

secured by commercial real estate. At June 30, 2008, all of these lending relationships were current and performing in accordance with the terms of their loan agreements.

Loan Originations, Purchases, Sales, Solicitation and Processing. The following table shows total loans originated, purchased and repaid during the periods indicated.

	For the Years Ended June 30,		
	2008	**2007**	**2006**
	(In Thousands)		
Loan originations and purchases:			
Loan originations:			
Real estate mortgage:			
One-to-four family	**$ 99,113**	$ 67,158	$ 118,371
Multi-family and commercial	**44,854**	62,948	23,444
Commercial business	**7,622**	4,604	708
Construction	**5,569**	6,268	22,638
Consumer:			
Home equity loans and lines of credit	**44,992**	51,437	66,456
Passbook or certificate	**1,504**	1,802	1,578
Other	**334**	1,553	412
Total loan originations	**203,988**	195,770	233,607
Loan purchases:			
Real estate mortgage:			
One-to-four family	**102,228**	97,521	24,434
Multi-family and commercial	—	—	—
Total loan purchases	**102,228**	97,521	24,434
Loan principal repayments	**(145,959)**	(136,669)	(113,786)
Increase due to other items	**936**	258	1,340
Net increase in loan portfolio	**$ 161,193**	$ 156,880	$ 145,595

Our customary sources of loan applications include repeat customers, referrals from realtors and other professionals and “walk-in” customers. Our residential loan originations are largely advertising driven.

We primarily originate our own loans and retain them in our portfolio. As part of our loan growth strategy, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no whole loan sales during the year ended June 30, 2008. Gross loan originations totaled $204.0 million for the year ended June 30, 2008 and exceeded principal repayments by approximately $58.0 million.

The Bank maintains loan purchase and servicing agreements with two large nationwide lenders, in order to supplement the Bank’s loan production pipeline. Each agreement calls for the purchase of loan pools that contain mortgages on residential properties in our lending area. We have procedures in place for purchasing these mortgages such that the underwriting guidelines are consistent with those used in our in-house loan origination process. The evaluation and approval process ensures that the purchased loans generally conform to our normal underwriting guidelines. Our due diligence process includes full credit reviews and an examination of the title policy and associated legal instruments. We recalculate debt service and loan-to-value ratios for accuracy and review appraisals for reasonableness. We expanded our loan purchase and servicing agreements with the same nationwide lenders to include mortgage loans

secured by residential real estate located outside of New Jersey. All loan packages presented to the Bank must meet the Bank's underwriting requirements as outlined in the purchase and servicing agreements and are subject to the same review process shown above. Furthermore, there are stricter underwriting guidelines in place for out-of-state mortgages, including higher minimum credit scores. During the year ended June 30, 2008, we purchased a total of $77.7 million fixed-rate loans from these sellers.

Once we purchase the loans, we continually monitor the seller's performance by thoroughly reviewing portfolio balancing reports, remittance reports, delinquency reports and other data supplied to us on a monthly basis. We also review the seller's financial statements and documentation as to their compliance with the servicing standards established by the Mortgage Bankers Association of America.

We purchase out-of-state one-to-four family first mortgage loans in states we have judged to be minimally affected by the housing and credit crises. As of June 30, 2008, our portfolio of out-of-state loans included mortgages in 22 states and totaled $68.9 million. The largest concentration of loans at June 30, 2008 is located in the state of Georgia, totaling $7.1 million.

The Bank also enters into purchase agreements with a limited number of smaller, local mortgage companies to supplement the Bank's loan production pipeline. These agreements call for the purchase, on a flow basis, of adjustable-rate and/or 10, 15 and 30-year fixed-rate mortgage loans with servicing released to the Bank. During the year ended June 30, 2008, we purchased a total of $2.1 million adjustable-rate loans and $22.4 million of fixed-rate loans from these companies.

In addition to purchasing one-to-four family loans, we also occasionally purchase participations in loans originated by other banks and through the Thrift Institutions Community Investment Corporation of New Jersey ("TICIC"). Our TICIC participations include multi-family and commercial real estate properties. The aggregate balance of TICIC participations at June 30, 2008 was $8.5 million and the average balance of a single participation was approximately $259,000. At June 30, 2008, we had six non-TICIC participations with an aggregate balance of $14.2 million, consisting of loans on commercial real estate properties, including a medical center, a self-storage facility, a shopping plaza and commercial buildings with a combination of retail and office space and a construction loan to build townhouses. During the year ended June 30, 2008, the Bank did not purchase any participations in loans originated by other banks.

Loan Approval Procedures and Authority. Senior management recommends and the Board of Directors approves our lending policies and loan approval limits. Our Chief Lending Officer may approve loans up to $750,000. Loan department personnel of the Bank serving in the following positions may approve loans as follows: mortgage loan managers, mortgage loans up to $500,000; mortgage loan underwriters, mortgage loans up to $25,000; consumer loan managers, consumer loans up to $250,000; and consumer loan underwriters, consumer loans up to $150,000. In addition to these principal amount limits, there are established limits for different levels of approval authority as to minimum credit scores and maximum loan to value ratios and debt ratios. Our Chief Executive Officer, Chief Financial Officer and Chief Investment Officer have authorization to countersign loans for amounts that exceed $750,000 up to a limit of $1.0 million. Our Chief Lending Officer must approve loans between $750,000 and $1.0 million along with one of these designated officers. Non-conforming mortgage loans and loans over $1.0 million require the approval of the Board of Directors.

Asset Quality

Loan Delinquencies and Collection Procedures. The borrower is notified by both mail and telephone when a loan is 30 days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is 90 days delinquent, it is our general practice to refer it to an attorney for repossession or foreclosure. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial writedown of the property, if necessary, is charged to the allowance for loan losses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. At June 30, 2008, we held real estate owned totaling $109,000, consisting of one parcel of vacant land currently under a contract of sale.

Loans are reviewed on a regular basis and are placed on non-accrual status when they are more than 90 days delinquent, with the exception of passbook loans. When a passbook loan becomes 120 days delinquent, we collect the outstanding balance of the loan from the related passbook account along with accrued interest (and a penalty is charged if the account securing the loan is a certificate of deposit). Loans may be placed on a non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2008, we had approximately $1.6 million of loans that were held on a non-accrual basis compared to $1.5 million at June 30, 2007.

Non-Performing Assets. The following table provides information regarding the Bank's non-performing loans and other non-performing assets. At each of the dates indicated, we did not have any troubled debt restructurings. At June 30, 2008 and 2007, the allowance for loan losses totaled $6.1 million and $6.0 million, non-performing loans totaled $1.6 million and $1.5 million and the ratio of allowance for loan losses to non-performing loans was 388.1% and 406.3%, respectively.

	At June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis:					
Real estate mortgage:					
One- to four-family	**$ 530**	$ 472	$ 329	$ 846	$ 771
Multi-family and commercial	**1,012**	1,017	592	1,004	1,414
Commercial business	**—**	—	—	31	39
Consumer:					
Home equity loans	**31**	—	21	20	65
Home equity lines of credit	**—**	—	—	17	—
Other	**—**	—	—	4	—
Construction	**—**	—	—	—	—
Total	**1,573**	1,489	942	1,922	2,289
Accruing loans which are contractually past due 90 days or more:					
Real estate mortgage:					
One- to four-family	**—**	—	—	—	—
Multi-family and commercial	**—**	—	—	—	—
Commercial business	**—**	—	—	—	—
Consumer:	**—**				
Home equity loans and lines of credit	**—**	—	—	—	—
Passbook or certificate	**—**	—	—	—	39
Other	**—**	—	—	—	—
Construction	**—**	—	—	—	—
Total	**—**	—	—	—	39
Total non-performing loans	**$ 1,573**	$ 1,489	$ 942	$ 1,922	$ 2,328
Real estate owned	**$ 109**	$ 109	$ 109	$ 209	$ 209
Other non-performing assets	**$ —**	$ —	$ —	$ —	$ —
Total non-performing assets	**$ 1,682**	$ 1,598	$ 1,051	$ 2,131	$ 2,537
Total non-performing loans to total loans	**0.15 %**	0.17 %	0.13 %	0.34 %	0.46 %
Total non-performing loans to total assets	**0.08 %**	0.08 %	0.05 %	0.09 %	0.12 %
Total non-performing assets to total assets	**0.08 %**	0.08 %	0.05 %	0.10 %	0.13 %

During the years ended June 30, 2008, 2007 and 2006, gross interest income of $105,000, $111,000 and $81,000, respectively, would have been recognized on loans accounted for on a non-accrual basis if those loans had been current. Interest income recognized on such loans of $47,000, $45,000 and $9,000 was included in income for the years ended June 30, 2008, 2007 and 2006, respectively.

As of June 30, 2008, the Bank had no loans not disclosed in the table on Page 13 or the table below, where known information about possible credit problems of borrowers cause management to have serious doubts about the ability of such borrowers to comply with the present loan repayment terms.

Classified Assets. Management, in compliance with Office of Thrift Supervision guidelines, has instituted an internal loan review program, whereby non-performing loans are classified as substandard, doubtful or loss. It is our policy to review the loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis. When a loan is classified as substandard or doubtful, management is required to evaluate the loan for impairment. When management classifies a portion of a loan as loss, a reserve equal to 100% of the loss amount is required to be established or the loan is to be charged-off.

An asset is considered "substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets or portions thereof, classified as "loss" are considered uncollectible and of so little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to a sufficient degree of risk to warrant classification in one of the aforementioned categories but which have credit deficiencies or potential weaknesses are required to be designated "special mention" by management.

Management's classification of assets is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process. An independent loan review firm performs a review of our residential and commercial loan portfolios and we downgrade our classifications to match those of this reviewing firm if there is disagreement between our assessment and the independent assessment. The following table discloses our classification of assets and designation of certain loans as special mention as of June 30, 2008. At June 30, 2008, all of the classified assets and special mention designated assets were loans.

	At June 30,		
	2008	**2007**	**2006**
	(In Thousands)		
Special Mention	**$ —**	$ 736	$ 236
Substandard	**749**	1,470	1,448
Doubtful	**1,871**	1,881	2,001
Loss	**—**	—	—
Total	**$ 2,620**	$ 4,087	$ 3,685

At June 30, 2008, three loans totaling approximately $134,000 classified as "substandard" and three loans totaling approximately $763,000 classified as "doubtful," respectively, are included under non-performing assets, as shown in the table on Page 13. Generally, the underlying cause for these classifications is the borrower's inability to generate sufficient cash flow from the property to cover the debt payments. The borrowers, in most cases, have continued to honor these obligations using personal funds to make the payments.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are both probable and reasonable to estimate. The allowance is established through provisions for loan losses that are charged to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged-off are added back to the allowance.

Management, in determining the allowance for loan losses, considers the losses inherent in the loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio by type of loan, as required by generally accepted accounting principles and regulatory guidelines.

A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied first to interest receivable and then to principal.

We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potentially impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and financial condition of the borrower. Large groups of smaller balance homogeneous loans, such as residential real estate and home equity and consumer loans are evaluated in the aggregate using historical loss factors and current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, are evaluated individually for impairment. At June 30, 2008, impaired loans were $2.5 million compared to no impaired loans at June 30, 2007. As of June 30, 2008, the related allowance for loan losses totaled $1.2 million and impaired loans which did not have a specific allocation of the allowance for loan losses totaled $596,000.

Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management’s judgment.

The estimation of the allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The Office of Thrift Supervision may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on its review of information available at the time of the examination, which would negatively affect our earnings.

The following table sets forth information with respect to activity in the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
	(Dollars in Thousands)				
Allowance balance (at beginning of period)	**$ 6,049**	$ 5,451	$ 5,416	$ 5,144	$ 5,180
Provision for loan losses	**94**	571	72	68	—
Charge-offs:					
Real estate mortgage – One-to-four family	**30**	—	—	—	12
Commercial business	**—**	—	30	5	24
Other	**9**	—	12	4	—
Total charge-offs	**39**	—	42	9	36
Recoveries:					
Real estate mortgage – One-to-four family	**—**	—	—	213	—
Commercial business	**—**	27	5	—	—
Total recoveries	**—**	27	5	213	—
Net (charge-offs) recoveries	**(39)**	27	(37)	204	(36)
Allowance balance (at end of period)	**$ 6,104**	$ 6,049	$ 5,451	$ 5,416	$ 5,144
Total loans outstanding	**$ 1,026,514**	$ 865,031	$ 707,977	$ 562,619	$ 510,180
Average loans outstanding	**$ 951,019**	$ 785,210	$ 633,758	$ 523,029	$ 504,672
Allowance for loan losses as a percent of total loans outstanding	**0.59 %**	0.70 %	0.77 %	0.96 %	1.01 %
Net loan charge-offs as a percent of average loans outstanding	**0.00 %**	0.00 %	0.01 %	0.00 %	0.01 %
Allowance for loan losses to non-performing loans	**388.05 %**	406.25 %	578.66 %	281.79 %	220.96 %

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the allowance for loan losses by loan category and the percent of loans in each category to total net loans receivable at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses, which may occur within the loan category since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

	At June 30, 2008		2007		2006		2005		2004	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in Thousands)									
At end of period allocated to:										
Real estate mortgage:										
One-to-four family	**$ 3,131**	**66.99 %**	$ 1,854	64.66 %	$ 1,582	65.80 %	$ 1,514	68.03 %	$ 1,422	70.22 %
Multi-family and commercial	**1,934**	**17.40**	3,602	18.40	3,133	15.13	3,368	17.19	3,358	16.35
Commercial business	**46**	**0.85**	27	0.48	34	0.45	50	0.52	57	1.01
Consumer:										
Home equity loans	**756**	**12.08**	356	13.14	286	13.23	182	9.63	131	7.33
Home equity lines of credit	**70**	**1.12**	46	1.47	39	1.83	47	2.64	52	3.07
Passbook or certificate	**—**	**0.26**	—	0.38	—	0.41	—	0.50	—	0.54
Other	**43**	**0.13**	34	0.16	27	0.03	120	0.05	4	0.07
Construction	**124**	**1.17**	130	1.31	350	3.12	135	1.44	120	1.41
Total	**$ 6,104**	**100.00 %**	$ 6,049	100.00 %	$ 5,451	100.00 %	$ 5,416	100.00 %	$ 5,144	100.00 %

Our focus has been to maintain an allowance for loan losses that represents our best estimate of the current amount of loss that it is probable given current facts and economic circumstances as of the evaluation date. Management has procedures in place to document loss allowance policies and methodologies, to consider all relevant information at the evaluation date, to support qualitative factors and unallocated amounts and to ensure directional consistency with changes in loss factors.

Securities Portfolio

Our deposits have traditionally exceeded our loan originations and we have invested these deposits primarily in mortgage-backed and non-mortgage-backed securities. Our securities portfolio comprised 36.7% of our total assets at June 30, 2008 compared to 38.2% at June 30, 2007. We have increased the balance of our loan portfolio relative to the size of our securities portfolio in recent years in order to improve earnings. We intend to continue shifting our assets into loans rather than securities, however, such a change will take time and in the foreseeable future, securities will remain a significant component of our assets. It is management's intention to continue to invest in mortgage-backed securities, to the extent the funds are not needed for loan originations.

Our investment policy, which is approved by the Board of Directors, is designed to foster earnings and manage cash flows within prudent interest rate risk and credit risk guidelines. Generally, our investment policy is to invest funds in various categories of securities and maturities based upon our liquidity needs, asset/liability management policies, investment quality, and marketability and performance objectives. Our Chief Executive Officer, Chief Financial Officer and Chief Investment Officer are designated by the Board of Directors as the officers responsible for securities investment transactions and all transactions require the approval of at least two of these designated officers. The Interest Rate Risk Management Committee, currently composed of Directors Hopkins, Regan, Aanensen, Mazza and Parow, with our Chief Investment Officer and Chief Financial Officer participating as management's liaison to the committee, is responsible for the administration of the securities portfolio. This committee meets quarterly to review the securities portfolio. The results of the committee's quarterly review are reported to the full Board, which adjusts the investment policy and strategies, as it considers necessary and appropriate.

Federally chartered savings banks have the authority to invest in various types of liquid assets. The investments authorized under the investment policy approved by our Board of Directors include U.S. government and government agency obligations, municipal securities (consisting of bank qualified municipal bond obligations of state and local governments) and mortgage-backed securities of various U.S. government agencies or government-sponsored entities. On a short-term basis, our investment policy authorizes investment in securities purchased under agreements to resell, federal funds, certificates of deposits of insured banks and savings institutions and Federal Home Loan Bank ("FHLB") term deposits.

As of June 30, 2008, mortgage-backed securities represented approximately 95.0% of our total investment in securities, compared to 87.9% as of June 30, 2007. Mortgage-backed securities are pass-through securities typically issued with stated principal amounts and the securities are backed by pools of mortgages that have loans with interest rates that are within a specific range and have varying maturities. The life of a mortgage-backed security thus approximates the life of the underlying mortgages. Mortgage originators use intermediaries (generally government agencies and government-sponsored enterprises, but also a variety of private corporate issuers) to pool and repackage the participation interests in the form of securities, with investors such as us receiving the principal and interest payments on the mortgages. The characteristics of the underlying pool of mortgages, *i.e.*, fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates.

We only invest in mortgage-backed securities issued by U.S. government agencies or government-sponsored entities, such as Government National Mortgage Association, the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae"). We do not invest directlyin mortgage-backed securities of private issuers or collateralized mortgage obligations. Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors.

Mortgage-backed securities generally yield less than the mortgage loans underlying such securities because of their payment guarantees or credit enhancements, which offer nominal credit risk to the security holder.

In addition to our direct investments in mortgage-backed securities, we hold the AMF Ultra Short Mortgage Fund, a mutual fund acquired during 2002 as the result of a merger, which invests primarily in agency and private label mortgage-backed securities and collateralized mortgage obligations of short duration. The housing and credit crises negatively impacted the market value of certain securities in the fund's portfolio resulting in a continuing decline in the net asset value of this fund. In addition, the fund's manager instituted a temporary prohibition against cash redemptions to protect shareholders against the possibility that the fund might be forced to liquidate securities at distressed price levels to satisfy redemption requests. In light of these factors, current accounting rules and associated Securities and Exchange Commission guidance the Company determined that the declines in the net asset value of this fund were other-than-temporary and, during the quarter ended June 30, 2008, we took a non-cash pre-tax charge of $659,000 against our $8.4 million holding in the fund.

Due to a continuing decline in the net asset value of the aforementioned mutual fund, the Company decided in July 2008 to withdraw its investment in the fund by invoking a redemption-in-kind option after the fund's manager instituted the temporary prohibition against cash redemptions. The shares redeemed for cash and the shares redeemed for the underlying securities were written down to fair value as of the trade date resulting in an additional pre-tax charge to operations of $415,000 during the quarter ending September 30, 2008. Upon redemption, the underlying debt securities were classified as held to maturity. Several of the underlying securities were on credit watch or down graded prior to the redemption-in-kind. Since the mortgage-backed securities are carried at a significant discount to fair value, management anticipates that the $1.1 million charge in aggregate will be partially recovered as payments from the mortgage-backed securities are received each month. Withdrawal from the fund also eliminated the 45 basis point management fee.

We hold five single issue trust preferred securities with an aggregate carrying value of $7.4 million. Four of the five securities are with money center banks and have an aggregate carrying value of $6.3 million. The fifth security with a carrying value of $1.1 million was issued by a southeastern community bank. Management continually evaluates these trust preferred securities for other-than-temporary impairment and as of June 30, 2008, we concluded that any unrealized losses were temporary in nature. In making this determination, for each security we considered the extent and duration of the impairment; the nature and financial health of the issuer, including credit rating; our ability and intent to hold the security for a period sufficient to allow for a recovery in market value; and our ability and intent to hold the security for the time necessary to recover the amortized cost.

Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that securities be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. SFAS No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity."

We do not currently use or maintain a trading account. Securities not classified as "held to maturity" are classified as "available for sale." These securities are reported at fair value and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as a

separate component of equity. As of June 30, 2008, the Bank's entire portfolios of mortgage-backed securities and non-mortgage-backed securities were classified as available for sale.

Other than mortgage-backed securities issued or guaranteed by the U.S. government or its agencies, at June 30, 2008 we did not hold securities of any one issuer having an aggregate book value in excess of 10% of our equity. All of our securities carry market risk insofar as increases in market rates of interest may cause a decrease in their market value. Purchases of securities are made based on certain considerations, which include the interest rate, tax considerations, volatility, yield, settlement date and maturity of the security, our liquidity position and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered. We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments. Further, we do not purchase directly securities that are not rated investment grade.

During the years ended June 30, 2008, 2007 and 2006, proceeds from sales of securities available for sale totaled $48.5 million, $131.4 million and $257.0 million and resulted in gross gains of $57,000, $1.3 million and $8.8 million and gross losses of $57,000, $1.3 million and $7.8 million.

The following table sets forth the carrying value of our securities portfolio at the dates indicated. The table reflects the reclassification of securities held to maturity and mortgage-backed securities held to maturity to available for sale during the year ended June 30, 2006.

	At June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
	(In Thousands)				
Securities Available for Sale:					
U.S. government obligations	**$ 5,513**	$ 6,864	$ 8,786	$ —	$ —
Obligations of states and political subdivisions	**17,757**	65,333	195,661	—	—
Mutual funds (1)	**7,545**	7,795	7,424	14,140	13,899
Common stock (2)	**—**	—	—	8,551	15,894
Trust preferred securities	**7,368**	8,877	10,922	10,900	11,771
Total securities available for sale	**38,183**	88,869	222,793	33,591	41,564
Securities Held to Maturity:					
U.S. government obligations	**—**	—	—	265,469	274,401
Obligations of states and political subdivisions	**—**	—	—	204,629	161,469
Total securities held to maturity	**—**	—	—	470,098	435,870
Mortgage-Backed Securities Available for Sale:					
Government National Mortgage Association	**21,930**	29,540	42,646	—	—
Federal Home Loan Mortgage Corporation	**317,448**	252,497	256,036	—	—
Federal National Mortgage Association	**386,645**	361,742	371,647	—	—
Total mortgage-backed securities available for sale	**726,023**	643,779	670,329	—	—
Mortgage-Backed Securities Held to Maturity:					
Government National Mortgage Association	**—**	—	—	63,399	94,499
Federal Home Loan Mortgage Corporation	**—**	—	—	305,059	314,221
Federal National Mortgage Association	**—**	—	—	389,663	362,633
Total mortgage-backed securities held to maturity	**—**	—	—	758,121	771,353
Total	**$ 764,206**	$ 732,648	$ 893,122	$ 1,261,810	$ 1,248,787

(1) As of June 30, 2008, 2007 and 2006, our mutual fund investment consisted of shares issued by AMF Ultra Short Mortgage Fund. Our mutual fund investment in prior years also included shares in a government income fund.

(2) As of June 30, 2005 and 2004, our common stock investment consisted of shares of Freddie Mac common stock.

The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our securities portfolio at June 30, 2008. This table shows contractual maturities and does not reflect re-pricing or the effect of prepayments. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. At June 30, 2008, securities with a carrying value of $7.4 million are callable within one year.

	At June 30, 2008										
	One Year or Less		**One to Five Years**		**Five to Ten Years**		**More Than Ten Years**		**Total Securities**		
	Carrying Value	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Carrying Value**	**Weighted Average Yield**	**Market Value**
	(Dollars in Thousands)										
Mutual funds	$7,545	4.13 %	$—	— %	$—	— %	$—	— %	$7,545	4.13 %	$7,545
Trust preferred securities	—	— %	—	— %	—	— %	7,368	4.34 %	7,368	4.34 %	7,368
U.S. government obligations	—	— %	—	— %	385	3.33 %	5,128	2.69 %	5,513	2.74 %	5,513
Obligations of states and political subdivisions	—	— %	1,294	3.24 %	14,037	3.48 %	2,426	3.68 %	17,757	3.49 %	17,757
Mortgage-backed securities:											
Government National Mortgage Association	40	7.73 %	209								