

Edgar Filing: Northfield Bancorp, Inc. - Form 10-K

Northfield Bancorp, Inc.
Form 10-K
March 17, 2014
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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. 001-35791

Northfield Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	80-0882592 (I.R.S. Employer Identification No.)
-------------------------------------------------------------------------------	-------------------------------------------------------

581 Main Street, Woodbridge, New Jersey (Address of Principal Executive Offices)	07095 Zip Code
-------------------------------------------------------------------------------------	-------------------

(732) 499-7200

(Registrant's telephone number, including area code)

Edgar Filing: Northfield Bancorp, Inc. - Form 10-K

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	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.

Yes 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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Table of Contents

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to price at which the common equity was last sold on June 30, 2013 was \$665,555,817.

As of March 14, 2014, there were outstanding 55,638,779 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

NORTHFIELD BANCORP, INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	Page
<u>Part I.</u>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	32
Item 1B. <u>Unresolved Staff Comments</u>	40
Item 2. <u>Properties</u>	40
Item 3. <u>Legal Proceedings</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
<u>Part II.</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	41
Item 6. <u>Selected Financial Data</u>	44
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	46
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	63
Item 8. <u>Financial Statements and Supplementary Data</u>	63
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	124
Item 9A. <u>Controls and Procedures</u>	124
Item 9B. <u>Other Information</u>	124
<u>Part III.</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	125
Item 11. <u>Executive Compensation</u>	125
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	125
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	125
Item 14. <u>Principal Accounting Fees and Services</u>	125
<u>Part IV.</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	126

Signatures



Table of Contents

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report contains certain “forward-looking statements,” which can be identified by the use of such words as “estimate”, “project,” “believe,” “intend,” “anticipate,” “plan”, “seek”, “expect” and words of similar meaning. These forward statements include, but are not limited to:

- statements of our goals, intentions, and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
-

inflation and changes in the interest rate environment that reduce our margins and yields or reduce the fair value of financial instruments;

- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
 - our ability to manage operations in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- changes in the level of government support for housing finance;
- significant increases in our loan losses; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements after the date of this Form 10-K, whether as a result of new information, future events or otherwise.

Table of Contents

Northfield Bancorp, Inc., a Delaware Corporation

Northfield Bancorp, Inc., a Delaware Corporation was organized in June 2010. Upon completion of the mutual-to-stock conversion of Northfield Bancorp, MHC in January 2013, Northfield Bancorp, Inc. became the holding company of Northfield Bank and succeeded to all of the business and operations of the former Northfield Bancorp, Inc., a Federal Corporation, (“Northfield-Federal”) and each of Northfield-Federal and Northfield Bancorp, MHC ceased to exist. Northfield Bancorp, Inc. uses the support staff and offices of Northfield Bank and pays Northfield Bank for these services. If Northfield Bancorp, Inc. expands or changes its business in the future, it may hire its own employees.

In the future, we may pursue other business activities, including mergers and acquisitions, investment alternatives and diversification of operations. There are, however, no current understandings or agreements for these activities.

Northfield Bancorp, Inc. is subject to comprehensive regulation and examination by the Federal Reserve Bank of Philadelphia.

Northfield Bancorp, Inc.’s main office is located at 581 Main Street, Woodbridge, New Jersey 07095, and its telephone number at this address is (732) 499-7200. Its website address is www.eNorthfield.com. Information on this website is not and should not be considered to be a part of this annual report.

Northfield Bank

Northfield Bank was organized in 1887 and is a federally chartered savings bank. Northfield Bank conducts business primarily from its home office located in Staten Island, New York, its operations center located in Woodbridge, New Jersey, its 29 additional branch offices located in New York and New Jersey, and its lending office located in Brooklyn, New York. The branch offices are located in Staten Island, Brooklyn, and the New Jersey counties of Union and Middlesex.

Northfield Bank’s principal business consists of originating multifamily and other commercial real estate loans, purchasing investment securities, including mortgage-backed securities and corporate bonds, and to a lesser extent depositing funds in other financial institutions. Northfield Bank also offers construction and land loans, commercial

and industrial loans, one-to-four family residential mortgage loans, and home equity loans and lines of credit. Northfield Bank offers a variety of deposit accounts, including certificates of deposit, passbook, statement, and money market savings accounts, transaction deposit accounts (negotiable orders of withdrawal (NOW) accounts and non-interest bearing demand accounts), individual retirement accounts, and to a lesser extent when it is deemed cost effective, brokered deposits. Deposits are Northfield Bank's primary source of funds for its lending and investing activities. Northfield Bank also borrows funds, principally repurchase agreements with brokers and Federal Home Loan Bank of New York advances. Northfield Bank owns 100% of NSB Services Corp., which, in turn, owns 100% of the voting common stock of a real estate investment trust, NSB Realty Trust, that holds primarily mortgage loans and other real estate related investments. In addition, Northfield Bank refers its customers to an independent third party that provides non-deposit investment products.

Northfield Bank is subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency ("OCC").

Northfield Bank's main office is located at 1731 Victory Boulevard, Staten Island, New York 10314, and its telephone number at this address is (718) 448-1000. Its website address is www.eNorthfield.com. Information on this website is not and should not be considered to be a part of this annual report.

Market Area and Competition

We have been in business for over 125 years, offering a variety of financial products and services to meet the needs of the communities we serve. Our commercial and retail banking network consists of multiple delivery channels including full-service banking offices, automated teller machines, and telephone and internet banking capabilities including remote deposit capture. We consider our competitive products and pricing, branch network, reputation for superior customer service, and financial strength, as our major strengths in attracting and retaining customers in our market areas.

We face intense competition in our market area both in making loans and attracting deposits. Our market areas have a high concentration of financial institutions, including large money center and regional banks, community banks, and credit unions. We face additional competition for deposits from money market funds, brokerage firms, mutual funds, and insurance companies. Some of our competitors offer products and services that we do not offer, such as trust services and private banking.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices in the New York counties of Richmond (Staten Island) and Kings (Brooklyn), and Union and Middlesex counties in New Jersey. As of June 30, 2013 (the latest

Table of Contents

date for which information is publicly available), we ranked fifth in deposit market share in Staten Island with a 9.33% market share. As of that date, we had a 0.58% deposit market share in Brooklyn, New York, and a combined deposit market share of 1.07% in Middlesex and Union Counties in New Jersey.

The following table sets forth the unemployment rates for the communities we serve and the national average for the last five years, as published by the Bureau of Labor Statistics.

	Unemployment Rate At December 31,				
	2013	2012	2011	2010	2009
Union County, NJ	6.9 %	9.2 %	8.8 %	9.2 %	9.4 %
Middlesex County, NJ	5.9	7.9	7.6	7.9	8.4
Richmond County, NY	6.6	7.9	7.9	8.0	8.7
Kings County, NY	8.2	9.5	9.5	9.5	10.6
National Average	6.7 %	7.8 %	8.5 %	9.4 %	9.9 %

The following table sets forth median household income at December 31, 2013 and 2012, for the communities we serve, as published by the U.S. Census Bureau.

	Median Household Income	
	At December 31,	
	2013	2012
Union County, NJ	\$ 63,641	\$ 60,991
Middlesex County, NJ	77,925	77,407
Richmond County, NY	74,860	72,905
Kings County, NY	\$ 42,291	\$ 40,269

Lending Activities

Our principal lending activity is the origination of multifamily real estate loans and, to a lesser extent, other commercial real estate loans in New York City, New Jersey, and Eastern Pennsylvania, typically on office, retail, and industrial properties. We also originate one-to-four family residential real estate loans, construction and land loans,

commercial and industrial loans, and home equity loans and lines of credit. In October 2009, we began to offer loans to finance premiums on insurance policies, including commercial property and casualty insurance, and professional liability insurance. At the end of December 2011, we stopped originating loans to finance premiums on insurance policies and in February 2012 we sold the majority of our insurance premium loans at par value.

Loan Originations, Purchases, Sales, Participations, and Servicing. All loans we originate for our portfolio are underwritten pursuant to our policies and procedures or are properly approved as exceptions to our policies and procedures. In addition, we originate both adjustable-rate and fixed-rate residential real estate loans under an origination assistance agreement with a third-party underwriter that conforms to secondary market underwriting standards, whereby the third-party underwriter processes and underwrites one-to-four family residential real estate loans that we fund at origination, and we elect either to portfolio the loans or sell them to the third-party. Prior to entering into the origination assistance agreement with this third-party underwriter in 2010, Northfield Bank was a participating seller/servicer with Freddie Mac, and generally underwrote its one-to-four family residential real estate loans to conform to Freddie Mac standards. Our ability to originate fixed- or adjustable-rate loans is dependent on the relative customer demand for such loans, which is affected by various factors including current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by changes in economic conditions that result in decreased loan demand. Our home equity loans and lines of credit typically are generated through direct mail advertisements, newspaper advertisements, online applications through our website, and referrals from branch personnel. A significant portion of our multifamily real estate loans and other commercial real estate loans are generated with the use of third-party loan brokers and referrals from accountants and other professional contacts.

We generally retain in our portfolio all adjustable-rate residential real estate loans we originate, as well as shorter-term, fixed-rate residential real estate loans (terms of 10 years or less). Loans we sell consist primarily of conforming, longer-term, fixed-rate residential real estate loans. We sold \$4.0 million of one-to-four family residential real estate loans (generally fixed-rate loans, with terms of 15 years or longer) during the year ended December 31, 2013.

We sell our loans without recourse, except for standard representations and warranties typical in secondary market transactions. Currently, we do not retain any servicing rights on one-to-four family residential real estate loans originated under the agreement with the third-party underwriter, including loans we may elect to add to our portfolio. During 2012, we sold the servicing

Table of Contents

rights of one-to-four family residential real estate loans owned by others to a third-party bank. Historically, the origination of loans held-for-sale and related servicing activity has not been material to our operations.

Loans acquired in a transaction with the Federal Deposit Insurance Corporation and the merger of Flatbush Federal Bancorp, Inc. with deteriorated credit quality herein referred to as purchased credit-impaired loans (“PCI loans”) have a carrying value of \$59.5 million at December 31, 2013. Additionally, we transferred certain loans with deteriorated credit quality, which we had previously originated and designated as held-for-investment, to held-for-sale in both 2013, 2012, and 2011. The accounting and reporting for both of these groups of loans differs substantially from those loans originated and classified as held-for-investment.

For purposes of reporting, discussion and analysis, management has classified its loan portfolio into four categories: (1) PCI loans, which are held-for-investment, and initially valued at estimated fair value on the date of acquisition, with no initial related allowance for loan losses, (2) loans originated and held-for-sale, which are carried at the lower of aggregate cost or estimated fair value, less costs to sell, and therefore have no associated allowance for loan losses, (3) originated loans held-for-investment, which are carried at amortized cost, less net charge-offs and the allowance for loan losses, and (4) acquired loans with no evidence of credit deterioration, which are held-for-investment, and initially valued at an estimated fair value on the date of acquisition, with no initial related allowance for loan losses.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory, underwriting standards established by our board of directors. The loan approval process is intended to assess the borrower’s ability to repay the loan and the value of the collateral that will secure the loan, if any. To assess the borrower’s ability to repay, we review the borrower’s income and credit history, and information on the historical and projected income and expenses of the borrower.

In underwriting a loan secured by real property, we require an appraisal of the property by an independent licensed appraiser approved by our board of directors. The appraisals of multifamily, mixed-use, and other commercial real estate properties are also reviewed by an independent third-party we hire but the fee is passed onto the borrower. We review and inspect properties before disbursement of funds during the term of a construction loan. Generally, management obtains updated appraisals when a loan is deemed impaired. These appraisals may be more limited than those prepared for the underwriting of a new loan. In addition, when we acquire other real estate owned, we generally obtain a current appraisal to substantiate the net carrying value of the asset.

The board of directors maintains a loan committee consisting of bank directors to: periodically review and recommend for approval our policies related to lending (collectively, the “loan policies”) as prepared by management; approve or reject loan applicants meeting certain criteria; and monitor loan quality including concentrations and certain other aspects of our lending functions, as applicable. Certain Northfield Bank officers, at levels beginning with senior vice president, have individual lending authority that is approved by the board of directors.

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan, at the dates indicated, excluding loans held for sale of \$471,000, \$5.4 million, \$3.9 million, \$1.2 million, and \$0, at December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

	At December 31, 2013		2012		2011		2010		2009
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
	(Dollars in thousands)								
Real estate loans:									
Multifamily	\$ 870,951	58.61%	\$ 610,129	49.18%	\$ 458,370	42.72%	\$ 283,588	34.30%	\$ 209,100
Commercial	340,174	22.89	315,450	25.43	327,074	30.48	339,321	41.04	327,074
One-to-four family residential	64,753	4.36	64,733	5.22	72,592	6.77	78,032	9.44	90,000
Home equity and lines of credit	46,231	3.11	33,573	2.71	29,666	2.76	28,125	3.40	26,000
Construction and land	14,152	0.95	23,243	1.87	23,460	2.19	35,054	4.24	44,000
Commercial and industrial loans	10,162	0.68	14,786	1.19	12,710	1.18	17,020	2.06	19,000
Insurance premium finance	-	-	26	-	59,096	5.51	44,517	5.39	40,000
Other loans	2,310	0.16	1,804	0.15	1,496	0.14	1,062	0.13	1,200
Purchase credit-impaired (PCI) loans	59,468	4.00	75,349	6.07	88,522	8.25	-	-	-
Loans acquired	77,817	5.24	101,433	8.18	-	-	-	-	-
Total loans	\$ 1,486,018	100.00%	\$ 1,240,526	100.00%	\$ 1,072,986	100.00%	\$ 826,719	100.00%	\$ 826,719
Other items:									
Deferred loan costs (fees), net	3,458		2,456		1,481		872		569
Allowance for loan losses	(26,037)		(26,424)		(26,836)		(21,819)		(15,000)
Net loans held-for-investment	\$ 1,463,439		\$ 1,216,558		\$ 1,047,631		\$ 805,772		\$ 811,719

At December 31, 2013, loans acquired consisted of approximately 78% one-to four family residential loans, 17% commercial real estate loans, with the remaining balance in multifamily loans. At December 31, 2012, loans acquired consisted of approximately 79% one-to four family residential loans, 15% commercial real estate loans, with the remaining balance in multifamily loans.

At December 31, 2013, PCI loans consisted of approximately 37% commercial real estate, 47% commercial and industrial loans, with the remaining balance in residential and home equity loans. At December 31, 2012, these loans consisted of approximately 39% commercial real estate, 52% commercial and industrial loans with the remaining balance in residential and home equity loans. At December 31, 2011, these loans consisted of approximately 39% commercial real estate, 53% commercial and industrial loans, with the remaining balance in residential and home equity loans.

Table of Contents

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2013. Demand loans (loans having no stated repayment schedule or maturity) and overdraft loans are reported as being due in the year ending December 31, 2013. Maturities are based on the final contractual payment date and do not reflect the effect of prepayments, repricing and scheduled principal amortization.

Due during the years ending December 31,	Multifamily		Commercial Real Estate		One-to-Four-Family Residential		Home Equity and Lines of Credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
2014	\$ 1,000	5.00%	\$ 5,266	6.01%	\$ 73	5.84%	\$ 648	2.67%
2015	494	4.89	44	5.00	179	6.35	58	4.04
2016	91	4.93	732	5.86	328	5.66	296	4.55
2017 to 2018	206	5.13	1,945	6.85	4,404	5.19	3,675	3.41
2019 to 2023	12,062	4.59	26,167	4.97	4,591	5.38	8,537	4.30
2024 to 2028								